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Today and longer-term...
to raise the national...
rate by reducing the...
deficit.
Some close advisers...
Clinton, however, are...
cautious. The nature of...
business cycle, says...
Shapiro, an economic...
Progressive Policy Institute...
Washington, raises...
debts about the effects...
of fiscal stimulus.
I am inclined to...
Shapiro's scepticism. At...
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debt. Why should...
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FUTURES
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Japan
Legacy of lifetime
employment
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Joe Rogaly
UK government
running scared
Page 21

China
The new
poliburo
Page 8

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World Car
Industry
Section III
Pages 31-35



FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY OCTOBER 20 1992

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Chase recovery underlined by 29% rise in profits

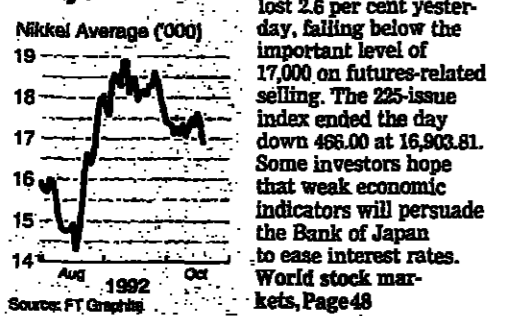
A 29 per cent rise in Chase Manhattan's third quarter net profits underlined the recovery at the big New York bank after two years of cost-cutting and a change of strategy. Chase, which has cut its workforce by 8,000 and concentrated on retail banking in New York and wholesale banking globally, turned in \$176m of third quarter net income. Page 23

Rumours of coup in Serbia Serbian police seized the Yugoslav federal interior ministry in an apparent attempt by Slobodan Milosevic to wrest power from the Yugoslav prime minister, Milan Panic. Page 22; Earthquake, Page 2

Skanska, Scandinavia's largest construction and property company, will make a substantial loss this year after reporting a 77 per cent fall in pre-tax profits to SKr432m (\$78m) for the first eight months. Page 23

Quebec separatists hopeful Growing prospects that Canadian voters will reject a package of constitutional reforms in next Monday's national referendum have sparked confidence among Quebec separatists. Page 22

Nikkei average loses 2.6 per cent The Nikkei average lost 2.6 per cent yesterday, falling below the important level of 17,000 on futures-related selling. The 225-issue index ended the day down 468.00 at 16,903.81. Some investors hope that weak economic indicators will persuade the Bank of Japan to ease interest rates. World stock markets, Page 48



Castor Holdings Unsecured creditors of the bankrupt Montreal-based property finance company have been told they are unlikely to recoup any of their C\$700m (\$560m) investment. Page 23

Argentine deal 'at risk' Buenos Aires' chief debt negotiator said resistance from a few banks in accepting a foreign debt reduction plan could threaten the entire \$23bn package. Page 5

Poland rejects pensions cuts The Polish parliament has rejected government plans to cut pensions in a blow to the cabinet's budget deficit reduction plans before scheduled talks with the IMF. Page 2

GATT breakthrough claimed EC officials proclaimed a breakthrough in multilateral trade talks, saying an outline deal with the US on agriculture and services could be reached soon. Page 6

Asa Brown Boveri, European engineering combine, urged India not to abandon a controversial \$130m contract to import high-tech locomotives. Page 6

Tokyo rice ban to stay Japan's agriculture ministry insisted that its rice market would remain closed to imports regardless of EC-US negotiations on farm products trade. Page 6

Unisys, US computer manufacturer, reported its fourth consecutive quarter of profitability, raising confidence that the once-troubled company is making a turnaround. Page 26

Swissair Stock market analysts have welcomed announcements by Swissair that it would eliminate 1,000 jobs and consider merging with Scandinavian Airlines or Austrian Airlines. Page 24

Perkins Group, UK diesel engine manufacturer, has won a major order - worth \$100m over five years - from Chrysler of the US for high-technology "green" engines to power Mexican-built Dodge trucks. Page 12

Delors EC European Commission president Jacques Delors, 57, cancelled a two-day visit to Ulster because of illness.

Trafalgar House, UK property, construction and engineering group, will today tell Hongkong Land that it is only willing to appoint one of its directors to the board. Page 23

ANC admits to tortures An inquiry commissioned by the African National Congress has found that the organisation tortured prisoners outside South Africa in the 1980s. Page 8

Outlook gloomy for east Germany The business outlook for east German enterprises has continued to deteriorate in 1992, and production is expected to be stagnant in the second half of the year. Page 3

STOCK MARKET INDICES		STERLING	
FTSE 100	2,592.2 (-1.7)	New York	1,625 (1,848)
Yield	4.88	London	1,625 (1,848)
FTSE Europe 100	1,881.88 (+4.4)		
FTSE Asia 100	1,308.88 (-0.1)		
FTSE World Index	1,372.25 (-0.2)		
Nikkei	16,903.81 (-1.6)		
New York			
Dow Jones Ind Ave	3,188.45 (+14.0)		
S&P Composite	414.88 (+0.2)		
US RATES		DOLLAR	
Federal Funds	3.25% (2.25%)	New York	
3-mo T-bill	5.00% (2.25%)	DM	1,507.2 (1,400.3)
Long Bond	9.0 (9.0%)	FF	5.09 (5.025)
Yield	7.86% (7.52%)	Sfr	1,343 (1,322)
LONDON MONEY		NORTH SEA OIL (Argus)	
3-mo interbank	8% (8.1%)	London	
Life long oil future	Dec 91/92 (Dec 92/93)		
NORTH SEA OIL (Argus)		GOLD	
Brent 15-day (Dec)	\$28.775 (20.8)	New York	
1-mo (Dec)	\$28.775 (20.8)	London	
3-mo (Dec)	\$28.775 (20.8)		
6-mo (Dec)	\$28.775 (20.8)		
12-mo (Dec)	\$28.775 (20.8)		
18-mo (Dec)	\$28.775 (20.8)		
24-mo (Dec)	\$28.775 (20.8)		
30-mo (Dec)	\$28.775 (20.8)		
36-mo (Dec)	\$28.775 (20.8)		
42-mo (Dec)	\$28.775 (20.8)		
48-mo (Dec)	\$28.775 (20.8)		
54-mo (Dec)	\$28.775 (20.8)		
60-mo (Dec)	\$28.775 (20.8)		
66-mo (Dec)	\$28.775 (20.8)		
72-mo (Dec)	\$28.775 (20.8)		
78-mo (Dec)	\$28.775 (20.8)		
84-mo (Dec)	\$28.775 (20.8)		
90-mo (Dec)	\$28.775 (20.8)		
96-mo (Dec)	\$28.775 (20.8)		
102-mo (Dec)	\$28.775 (20.8)		
108-mo (Dec)	\$28.775 (20.8)		
114-mo (Dec)	\$28.775 (20.8)		
120-mo (Dec)	\$28.775 (20.8)		

Miners win temporary reprieve but ministers insist coal industry cuts are inevitable

Major government backs down over pit closures

By Philip Stephens, Political Editor, in London

THE British government yesterday bowed to the national storm of protest provoked by its planned run-down of the coal industry by agreeing a temporary reprieve for 21 of the 31 pits earmarked for closure.

The embarrassing climbdown, announced to parliament after an emergency meeting of the cabinet had been told that its original programme faced certain defeat in the House of Commons, will give temporary job security to 22,000 of the more than 30,000 miners threatened with redundancy. It may also delay for a year the privatisation of British Coal.

But despite a broad welcome from most MPs of the ruling Conservative party, it remained uncertain whether the moratorium and associated government study would be sufficient to head off pressure for a far-reaching review of the energy industry.

Amid angry scenes in the House of Commons, Mr Michael Heseltine, trade and industry secretary, said the closure of 10 loss-making pits would go ahead after the completion of the statutory 90-day review procedure.

The remaining 21 would stay open at least until early next year. But Mr Heseltine emphasised that his willingness to allow wide-ranging consultations about the future of the industry had not dented his conviction that the case for a radical reduction in capacity was "compelling".

THE COAL CRISIS

- Heseltine spells out details of reprieve for pits Page 10
- U-turn does little to lift economic gloom Page 10
- Editorial Comment Page 20
- Running scared Page 21

tion in capacity was "compelling".

The U-turn marked another serious blow to the authority of Mr John Major's embattled government, and put a question mark over its ability to push through drastic cuts in government spending programmes next year.

It also left the personal political standing of Mr Heseltine badly mauled. He emerged from a two-hour grilling in the Commons to face renewed demands from some Conservative MPs for his resignation.

Mr Heseltine, who apologised to MPs for the handling of last week's announcement but refused to budge on the economic judgment behind his decision, was driven at one point to tell jeering opposition MPs to "stop being so bloody stupid".

Senior ministers calculated that the vote-facade would be enough to avert a full-scale rebellion by Conservative MPs when the Commons debates the future of the coal industry tomorrow. Mr Heseltine will attempt to win back more rebels in a private meeting today with members of

the party's trade and industry committee.

But senior Conservatives warned that the government-led review of the future of the coal industry promised by Mr Heseltine might not be enough to satisfy their demands.

Some of the most prominent critics of the closures - including Mr Winston Churchill - indicated that they were still prepared to back Labour demands for an independent inquiry embracing a strategic analysis of all Britain's energy resources. Mr Churchill is among a number of MPs who believe that the privatised electricity industry has "rigged" the energy market against coal.

Other Conservative MPs appeared unimpressed by Mr Heseltine's simultaneous announcement of aid worth £165m (\$284m) to regenerate the areas hit by the pit closures.

Mr Robin Cook, the Labour opposition's trade and industry spokesman, said the opposition parliamentary motion tomorrow would demand that no pits close until the Commons trade and industry select committee carries out a review of costs and benefits of closures.

For his part, Mr Heseltine, who faced a barrage of angry condemnation from the opposition parties and a sombre reception from his own side, indicated repeatedly that he saw no long-term future for the coal industry at its present size.

He emphasised that British Coal could expect to secure a contract with the electricity generators for no more than 40m tonnes a year from next April against the present 60m tonnes. He added bluntly: "The economic case for a substantial reduction in capacity therefore remains compelling."

Signalling his opposition to any independent inquiry, Mr Heseltine said that during the moratorium, "the government and British Coal will set out the full case for the closures which British Coal planned and to which I agreed".

Subject to the final approval of the Commons, he then intended that British Coal would "proceed with a phased programme of colliery closures aimed at reducing surplus capacity as soon as possible". Under fierce questioning from MPs, Mr Heseltine suggested that beyond delaying the closures, any changes in the programme ultimately were likely to be "at the margin".

The decision to announce the moratorium - which followed Mr Major's public insistence last week that there was no alternative to a speedy closure programme - followed a meeting of senior ministers on Sunday.

Mr Arthur Scargill, president of the National Union of Mineworkers, and other miners' leaders insisted they would continue their campaign to have all pit closures halted. The Trades Union Congress said it would press ahead with plans to hold a mass rally in London on Sunday.



Trade and industry minister Michael Heseltine leaves Downing Street after yesterday morning's cabinet meeting

Clinton tops polls by up to 18 points

By Jurek Martin in Washington

US PRESIDENT George Bush, trailing by up to 18 points in national opinion polls, was due to head south after last night's final televised debate in an attempt to shore up his support in states which he carried comfortably in the last presidential election four years ago.

His Democratic rival Governor Bill Clinton, in contrast, is embarking on a "winning the west tour", including stops in Nevada, Wyoming and Montana, small states in terms of population and Electoral College votes and all rock-solid Republican for the past six elections. He is also going to California and Oregon, where he is well ahead.

National polls published in the past 24 hours show why Mr Clinton has every reason to feel confident, although he continues to play down expectations. (CNN/USA Today had him ahead of Mr Bush by 12 points. Newweek by 15, CBS by 17 and ABC by 18, all bigger margins than before the round of debates began. Mr Ross Perot, the independent candidate, whose campaign has been confined to the debates and television commercials, generally scored in the 12-14 points range.

The president's itinerary takes him to the two Carolinas, Georgia and possibly Florida, in none of which he now has a firm lead. Logically, both candidates, and especially Mr Bush, should be concentrating on the populous "rust belt" states where most ought to be at stake. But the president finds he is obliged to campaign in states that he once could automatically count on.

The Bush campaign continues to maintain that its private polls show a deficit nothing like as big, and it anticipates a swing back to Mr Bush in the final days of the race for the White House as the electorate contemplates what the risks inherent in a Clinton presidency. But a big breakthrough in last night's debate was considered a prerequisite for recovery.

Even some prominent Republicans, now openly questioning whether assaults on Mr Clinton's activities as a young student in the UK will do the trick. Mr Jack Kemp, the housing secretary, said bluntly on television that this was simply "not a central issue" for the electorate.

It has long been axiomatic that Republicans do best when voter turnout is low. But there is growing evidence that participation at the polls may this year reverse two decades of general decline, with sharp increases in the number of people registering to vote.

Mr Perot is credited with first energising previously disaffected voters but, according to a New York Times canvass across the country, it is the Democrats who have been conducting the most effective registration drives in recent months.

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A rally by sterling after Mr Michael Heseltine, the trade and industry secretary, announced

Ghost of campaign past drives Democrats, Page 9

Pound falls sharply as market nerves persist

By Emma Tucker, Economics Staff, in London

THE POUND fell sharply against the D-Mark yesterday as the government's decision to postpone the pit closure programme failed to quell nervousness among investors about the UK's political and economic outlook.

A rally by sterling after Mr Michael Heseltine, the trade and industry secretary, announced

that only 10 pits would close, was short-lived. It closed more than 2% pennings lower at DM2.4200. The pound also fell against the dollar, finishing in London at \$1.6320 from Friday's close of \$1.6570. It slipped further in New York to a \$1.6250 close.

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Thyssen to cut steel output in face of rising imports

By Christopher Parkes in Bonn

THYSSEN STAHL, Germany's biggest steelmaker, is to cut production by almost a quarter and introduce short-time working in the last three months of this year.

In an announcement which coincided with renewed warnings that the industry could soon face an international structural crisis, the company said output from its two hot-rolling mills would be 300,000 tonnes less than in the last quarter of 1991.

The cuts, which were intended to help stabilise prices, would affect practically all other manufacturing stages, it added. No details were available of numbers affected by the introduction of short time.

Blaming falling orders and increasing price competition inside the European Community - "the last large open market" - Thyssen said the rise in imports from eastern Europe had been especially strong.

According to the RWI economic institute in Essen, a leading centre of expertise on the industry, manufacturers in former communist states are now selling steel at "almost any price" inside the Community because their domestic markets have collapsed.

East European steel imports into Germany are expected to reach 2.5m tonnes this year, compared with 900,000 tonnes in 1991. The German industry, which recently warned of the need for up to 20,000 job losses by the end of 1994, has been squeezed progressively throughout this year by falling prices and shrinking domestic and international demand.

Foreign markets have failed to recover in line with forecasts, and key domestic customers in the plant engineering and vehicle industries have reported steep falls in new orders. Steel price increases imposed in the spring have been eroded, and total production has fallen.

According to government figures, German steel output fell 2.2 per cent in the first nine months of this year.

The RWI institute said that although available data suggested that steelmakers were being hit by a "normal" cyclical downturn, the flood of cheap imports combined with the threatened closure of the US market to imports could cause long-term damage.

If European exporters were refused access to North America as a result of domestic suppliers' complaints of dumping, and the imports continued, the result could be structural overcapacity in Europe.

This could lead to a situation last experienced in the late 1970s, when European manufacturers demanded state subsidies to gain or protect market share, the institute said.

In a market which was stagnating or even shrinking, this could lead to an aggressive price war, it added. Intra-community co-operation together with stricter subsidy control could help avoid further deterioration.

This announcement appears as a matter of record only

CCA Holdings S.A.
has acquired 100% of
Continuous Coil Anodizing N.V.

The equity was led and arranged by:
Midland Montagu Investissement
Midland Montagu Ventures

The senior and subordinated debt was provided by:
Kredietbank N.V.
Hasselt, Belgium

Debt Financing Arranged by:
Samuel Montagu & Co. Limited
Specialised Financing Division

A management buy-out with:
ACE Partners, Brussels

Midland Montagu Ventures
The Venture Catalysts
10 Lower Thames Street, London EC3R 6AE
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NEWS: EUROPE

Frustration mounts in Brussels
over inaction by EC leaders

Commission urges priority for economy

By Andrew Hill and David Gardner in Luxembourg

THE worsening European economic situation should be "at the core" of EC leaders' talks at December's Edinburgh summit, Mr Henning Christophersen, financial affairs commissioner, said yesterday.

His comments to journalists, during a meeting of EC finance ministers, reflect growing Commission frustration at governments' apparent failure to tackle the real economic issues.

"Most people are now worried, not only about the situation in the UK, but about the situation in the Community as a whole," said Mr Christophersen. He added that growth forecasts for the EC, which he will publish in the next few weeks, were "not very encouraging, to put it mildly".

Finance ministers did not tackle the outcome of last Friday's Birmingham summit in any detail. Instead, they have asked central bank governors and senior central bank and treasury officials sitting as the EC monetary committee (which meets in Berlin this weekend) to look into the reasons for recent turmoil on the money markets.

Mr Horst Köhler, state secretary at the German finance ministry, emphasised that the committee meeting had been planned for some time, and that a realignment of the exchange rate mechanism was out of the question.

Mr Christophersen said it was up to finance ministers to find some way of stimulating the real economy. "If they

can't, they don't deserve to be finance ministers," he added.

Finance ministers yesterday concentrated on the "Delors II" plans for the EC budget, in particular the practical application of the "cohesion fund" for bringing poorer countries' economies into line with the wealthier EC members.

At the moment only Ireland, Portugal, Spain and Greece meet the main criterion for funding: per capita gross national product below 90 per cent of the EC average. Ministers appeared yesterday to exclude adding other countries before 1997, taking some of the heat out of rumours that Britain might shortly become eligible.

Mr Michel Sapin, French finance minister, said: "The cohesion fund is reserved for the four countries which had per capita gross national product of less than 90 per cent at the Maastricht and Lisbon (summits) - that is clear. Their names are well known."

According to some EC diplomats, Britain is pressing for flexibility on which countries are eligible for access to the cohesion fund. "Any British sounding may be more designed to secure their rebate," said one national official yesterday.

The UK is the second-largest contributor to the EC budget, but would have to put in much more but for the rebate granted in 1984, which was worth some £2bn last year. This rebate has been repeatedly challenged by its partners, including Germany, the largest net contributor to the EC budget.

NEWS IN BRIEF

Russian minimum wage to rise 150%

THE Russian finance ministry is planning to more than double the minimum monthly wage from the start of next year, Itar-Tass news agency said yesterday, Reuter reports from Moscow.

The agency, quoting what it said was a well-informed source, said the ministry would soon propose the minimum wage be increased from Rhs900 (\$2.65) to Rhs2,350.

The measures would cost an extra Rhs230bn a month, it said.

The increased costs will put an extra burden on Russia's budget deficit, which is set to hit Rhs950bn this year.

They could also bring Russia into conflict with Western industrial nations which have attached strict conditions to a proposed \$24bn (\$13.9bn) aid package aimed at helping revive the moribund economy.

Inflation has soared and living conditions have plunged since January, when the government freed most prices as part of its radical economic reform programme. The average monthly wage is now around 5,500 roubles (\$18.30). Tass said the ministry wanted to increase student grants by 250 per cent as well as boost pensions but it gave no details.

Brussels angry at Chernobyl restart

The European Commission said yesterday it was deeply worried by Ukraine's decision to restart one of the three power plants at Chernobyl, the site of the world's worst nuclear accident in 1986, Reuter reports from Brussels.

Leaks of radioactive gases at a similar plant in Lithuania in the last few days proved the danger of such reactors and the start-up at Chernobyl could only fuel anxiety in those two countries, as well as across Europe, Mr Karel Van Miert, the EC environment commissioner, said.

It was now more urgent than ever to speed up assistance to these countries and secure adoption of Western standards, he added.

EC adopts law on maternity pay

European Community ministers yesterday formally agreed on a law which will guarantee women across the Community a minimum level of maternity leave and pay, Reuter reports from Brussels.

Under the law, adopted without further discussion at a meeting of EC ministers, pregnant and breastfeeding women will be guaranteed 14 weeks' wages at a minimum of statutory sick pay. The plan will result in big improvements in only a small number of EC countries, notably Britain, Ireland and Portugal.

Azeri-Armenian clash in enclave

Fighting flared in the disputed mountain territory of Nagorno-Karabakh yesterday, with Azeri and Armenian antagonists both reporting lives had been lost, Reuter reports from Moscow.

The fighting in Nagorno-Karabakh centred on the vital Lachin corridor, the only overland route connecting the territory's Armenian-speaking population with neighbouring Armenia.



A Bosnian Serb soldier brings his caged birds on duty with him at a check point near Bosanski Brod, scene of recent heavy fighting with Croatian forces

Moscow seeks fresh debt relief

FT writers on rescheduling talks with Paris Club

MORE THAN seven decades after slamming the door on the capitalist world with a repudiation of Tsarist debts to the west, Russia is trying to regain entry to that club with a rescheduling of debts contracted during its communist past.

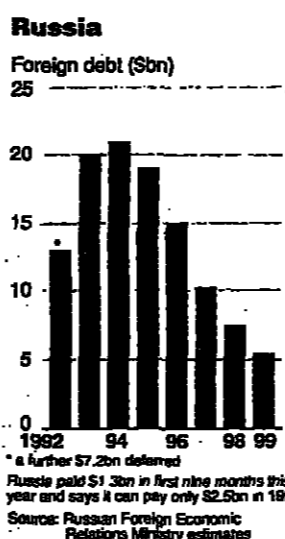
In consultations with western officials, due to begin in Paris this week, Russia will seek to hammer out a deal to ease the burden of \$70bn-\$80bn owed by the former Soviet Union to western governments and banks.

With Moscow already way behind on payments this year and saying it can pay only \$2.5bn instead of the \$20bn falling due next year, debt relief is recognised by all sides as a necessary plank of western efforts to help Russia switch to a market economy.

But disagreements between and among creditors and debtors make it unlikely an agreement will be ready in time for October 23, the tentative date for a formal meeting of the Paris Club - the grouping of western creditor governments which takes the final decisions on such matters.

Russia, which is trying to persuade other former Soviet republics to give up claims on Soviet assets in recognition of the fact that it is the only republic to be making debt repayments, has already announced it will probably have to ask for an extra two months of temporary debt relief when a deferral of principal payments expires at the end of this month.

The creditors are divided over how generous they should and can be. The US government, which has a relatively small exposure, favours writing off some of the debts, but opposition to anything more



than rescheduling is led by the biggest creditor, Germany, which is owed 40 per cent of the debt and is fed up with doing more to help Russia than other western countries.

The chief concern of German and other western banks, which are owed about \$18bn of the former Soviet debt, is to avoid the sort of deal concluded by the Paris Club with Poland in 1990, when governments forced banks to accept write-downs of 50 per cent on outstanding debt. Although they are obliged to mirror any concessions made by governments, banks believe that they can get better deals if left to their own devices.

"The Polish case looms dangerously in the background," said Mr Klaus Friedrich, chief economist at Dresdner Bank, the second-biggest bank in Germany. "We are obliged to wait for the governments to do something, but we wait with misgivings... We think it is economically necessary to provide debt relief but that must

be differentiated from debt forgiveness."

Mr Yuri Gromushkin, the debt expert at Russia's foreign economic relations ministry, denies that Moscow is looking for debt forgiveness. But he wants a rescheduling package to include a reduction of interest rates on some of the outstanding loans and a more recent cut-off date - the sacrosanct point after which debts incurred are excluded from a deal. The cut-off date used for the temporary debt relief granted until now has been January 1 1991. Mr Aven has said that even if the cut-off date is brought forward to January 1 1992, a standard Paris Club formula of a ten-year grace period would not be enough.

Mr Gromushkin also appealed for western help to persuade Ukraine to agree to a special arrangement allowing Russia exclusive management of relations with western creditors but giving the second most populous republic a share of Soviet assets in return for debt repayment contributions. Although Ukraine agrees that a system of joint and several responsibility imposed on former Soviet republics by the west last winter has failed, it has yet to publish counter-proposals it says it is working on.

But Ukrainian officials claim assets which belong to all republics to gain favour with the west as the only republic worth dealing with.

That charge is rejected by Mr Gromushkin, who says the only assets being sold are some debts to the Soviet Union by former allies in the developing world. The proceeds are being used to help repay debts and unblock frozen and charity accounts "frozen" by Vneshe-

Twelve set to agree rules on toxic waste

By Bronwen Maddox, Environment Correspondent

AGREEMENT is likely at today's EC Environment Council on a new regulation to limit trade in non-radioactive toxic waste, after two years of negotiation.

The new rules will prevent EC members from exporting toxic waste to countries outside the Community and the European Free Trade Association, a move designed to protect developing countries from becoming dumping grounds. The rules will also ban imports from non-European developed countries, although developing countries will still be allowed to ship waste to the EC and EFTA for treatment.

The stumbling block has been the issue of whether EC countries should have the right to ban imports of toxic waste from each other.

The right to refuse imports is supported by Britain, which has backed the principle of national self-sufficiency in treating hazardous waste, and by France, which spent the summer in bitter rows over whether it could ban imports of German waste. However, today's council is likely to agree that Luxembourg, Portugal, Greece and Ireland should be allowed to export some waste within the EC as they produce too little to dispose of it economically at home.

If the council reaches agree-

ment, the EC will be able to ratify the Basel Convention, an international treaty governing trade in hazardous waste which came into force in May.

Under the new EC rules, countries would be allowed to maintain imports of waste within the EC and EFTA.

The UK last year imported 44,000 tonnes of hazardous waste, containing poisonous metals and pesticides, nearly half from Switzerland and Belgium. The council will also address an EC position on the 1987 Montreal Protocol, designed to reduce the emission of gases.

The controversial issue is whether EC countries can agree to phase out methyl bromide, a gas used for fumigating seeds and grain stores.

The European Community is trying to "greenwash" the public with plans for waste controls that do nothing to stop it dumping toxic waste on the world's poorest nations, the Greenpeace environment lobby yesterday, Reuter adds.

Albanian officials said that Europe's poorest country had received hundreds of tonnes of pesticides from a German firm under the guise of "humanitarian aid" and could not get the firm to take it back.

After long and arduous negotiations, EC ministers were now only haggling over the extent to which each EC member country could bar waste imports, a spokesman said.

Overture to opposition by Finnish coalition

By Robert Taylor in Stockholm

FINLAND'S ruling centre-right coalition yesterday agreed to hold talks with the opposition Social Democrats on the country's economic problems, but it rejected an opposition demand to broaden the government.

Mr Esko Aho, the prime minister, made his offer after the Social Democrats emerged as the main winners in Sunday's local election.

They won 27.1 per cent of the vote, 5 points up on their performance in last year's general election. Mr Aho's ruling Centre party unexpectedly took only 19.2 per cent. Their main coalition partner, the Conservatives, captured 19.4 per cent.

Contrary to forecasts, the Greens did not make much headway and won only 6.9 per cent of the vote, while the former Communists - the Left Federation - won 11.9 per cent.

The city and municipal elections took place amid speculation that if the ruling parties were routed the coalition could fall apart.

Mr Ulf Sundqvist, the leader of the Social Democrats, said yesterday that the government had to make changes in its latest crisis package, which includes a compulsory savings scheme as well as sweeping cuts in government spending and tax increases to reduce the budget deficit.

Finland's gross domestic product declined 8.5 per cent in 1991. The unemployment rate, at 13.6 per cent in August, is one of the highest in western Europe.

The country's economic problems remain and considering the challenges we face in the next half year, we must get the country back into shape," said Mr Pertti Salolainen, the foreign trade minister.

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Shevardnadze overplays the Russian card

Steve Levine sees no sign of Moscow's hand in Abkhazia's rebellion against Georgia

THE separatist rebellion in Georgia's autonomous region of Abkhazia appears to be a largely indigenous uprising without the official Russian backing alleged by Georgia's leader, Mr Eduard Shevardnadze.

Interviews with Russian and Abkhaz officers and a three-day visit to the war-front revealed no Russian officers or soldiers, other than those attached to local garrisons of the Commonwealth of Independent States, successor to the Soviet Union.

While some Russian officers are openly sympathetic to the Abkhaz and a few former Russian troops discharged from local bases are reported to be fighting against Georgia, there was no sign of collusion between the poorly organised, poorly trained separatist army and Russian forces.

Claims of Russian partisanship have been the anchor of Mr Shevardnadze's efforts to solidify local and global support behind his deployment of Georgian forces. The ex-Soviet foreign minister, who was elected leader of Georgia earlier this month, asserts that outside involvement - some 1,300 men from

Abkhazia's tiny North Caucasian neighbours have joined the fight against Georgia, and are visible throughout the battle zone - threatens to spark a larger, regional war.

The conflict on Russia's border could continue indefinitely unless peace talks succeed. The Abkhaz have seized three dozen armoured vehicles and hundreds of rifles from Georgian troops, and they believe the new citrus crop will provide adequate economic support through the winter. The Georgians themselves have huge stockpiles of weaponry from garrisons of the former Soviet army, and also seem unlikely to back down.

Last week Mr Shevardnadze was quoted as threatening to take all of Abkhazia by force if new talks failed. Colonel Vladimir Arshba, a former Soviet commando who heads the Abkhaz fighters, replies in kind. "We think we must liberate all the territory of Abkhazia from the invaders. We won't be slaves... We have enough forces to counter their hardware."

The conflict began in August, when Abkhazia - an autonomous, sub-tropical republic of 550,000 people within

Georgia - declared independence and Mr Shevardnadze sent in tanks. The Georgians now control much of the south of Abkhazia, stretching from the regional capital of Sukhumi. The separatists, holding the north, are headquartered at the port of Gudauta. The frontline is the Gumista River in Sukhumi's suburbs.

Mr Shevardnadze and other Georgian officials, while saying they trust the Russian president, Mr Boris Yeltsin, allege that hardliners in Russia's government and military have given sophisticated hardware to Abkhazia, such as T-80 tanks. A Moscow newspaper last week claimed that Russian mercenaries were fighting on behalf of the Abkhaz.

Col Arshba said he possessed 10 tanks. Russian sources say they are mostly old Soviet T-54s. The Abkhaz also have up to 30 other armoured vehicles and 10 heat-seeking anti-aircraft missiles, one of which on October 11 shot down a Georgian-piloted SU-26 fighter.

But the colonel and other officers

insisted almost all the munitions were seized in battle against Georgia. Conversely, Col Arshba offered a list of weapons he claimed the Georgians have received from the former Soviet 10th Motorised Infantry Division, a list partially substantiated by foreign journalists in Georgia.

It included 108 tanks, 170 other armoured vehicles and eight multiple-firing GRAD missile launchers. The CIS has an airbase at Gudauta, an army base at Sukhumi and a paratrooper regiment at Eschera, north of Sukhumi at the Abkhaz frontline.

"I have been approached many times to take part in the conflict," said the Russian commander in Eschera, Captain Roman. "But I am a military man, so I cannot participate."

The CIS commander in Abkhazia, General Alexei Sigutkin, refused interviews. But Capt Roman vowed to protect his eight armoured vehicles from seizure by fighters of either side.

"I would use all my ammunition to shoot everyone," he said, "then use the combat vehicles to get out of here."

Polish MPs veto pension cut in budget

By Christopher Robinson in Warsaw

THE Polish parliament has rejected government plans to cut pensions in a blow to the cabinet's budget deficit reduction proposals before scheduled talks with the International Monetary Fund.

The proposed pension cuts were designed to save 1,800bn zlotys (\$743m) over the rest of this year and 25,000bn zlotys in 1993. They were central to the government's plans, agreed with the IMF, to keep the budget deficit within 7.5 per cent of GDP this year and 5.5 per cent of GDP in 1993.

The government's additional plans for a 3 per cent rise in turnover tax and a 6 per cent import surcharge to increase revenues by a further 23,000bn zlotys survived the preliminary vote in parliament.

Mr Jędrzejowski, the finance minister, yesterday said that he would seek alternative cuts in housing, transport and agricultural spending to compensate for parliament's refusal to cut pensions. The spending cuts and higher taxes are part of a package discussed

with the IMF which is hoping to sign a letter of intent with the Polish government by mid-November. Failure to cut spending on pensions will complicate talks with the Fund but Mr Jędrzejowski signalled that the government would renew its attempt to rein in pensions growth next year.

If successful, he said, the cost to the budget of the delay would only be 12,000bn zlotys. Agreement on a new 16 months standby agreement with the IMF is essential if Poland is to press ahead with debt reduction talks with commercial banks to whom it owes \$12.2bn. It also needs an IMF agreement to be in place to receive a further 20 per cent reduction of western debt in 1994 as part of the 50 per cent write-down in the \$30bn official debt agreed last year.

Meanwhile, the Central Statistical Office (GUS) said that industrial output rose by 13.1 per cent in September compared with the same month last year, and grew by 0.6 per cent over the first nine months of the year as a whole, but this was accompanied by a renewed burst of inflation.

Gloomy outlook for east Germany's enterprises

By Quentin Peel in Bonn

THE business outlook for east German enterprises has continued to deteriorate in 1992, and production is expected to be stagnant in the second half of the year, according to a new survey of the former Communist economy.

The Institute for Economic Research in Halle reported yesterday that a questionnaire of 300 companies showed that their positive expect-

tations in the first part of the year had not been fulfilled.

It cited in particular newly-privatised enterprises reporting a sharp fall in business prospects, and a general deterioration in external conditions - reflecting in particular the collapse in trade with eastern Europe.

The only sectors showing an upturn were construction and service industries. With the turnover of manufacturing industry expected to be

stagnant in the second half of the year, overall turnover for 1992 would be significantly lower than in 1991.

The gloomy report coincided with a new flurry of debate in Bonn about how to finance the cost of public transfers to the east German economy.

There were heated denials from the Chancellor's Office, and from members of the ruling government coalition, of a report in the mass-circulation Bild Zeitung that a compulsory

loan scheme was once again under debate.

The newspaper said the plan involved a 7.5 per cent surcharge on income tax, payable for 10 years, which would be repaid without any interest rate.

The plan was flatly rejected by Mr Otto Lambsdorff, leader of the Free Democrats in the ruling coalition. What was required was rigorous savings from the government budget, and only if that failed to reduce the

budget deficit should tax increases be contemplated, he said.

The issue of raising more money to reduce the deficit and finance spending in the east is a key question on the agenda of talks for a "solidarity pact" between German industry, trade unions, the government and opposition. Trade union leaders have made it clear they will not agree to any restraint on wages not matched by sacrifices by the business sector and high-income groups.

Queen welcomed to Bonn, UK welcomed to Europe

By Quentin Peel

THE flags of Britain, Germany and the European Community flew over Bonn yesterday to welcome Queen Elizabeth of Britain on a state visit, and to underline Germany's desire to see the UK as an enthusiastic EC member state.

The European theme was a clear German leitmotiv on the first day of the visit by the Queen and the Duke of Edinburgh, who will spend most of their time in Berlin and the states of former East Germany.

President Richard von Weizsäcker, the German head of state, stressed the point repeatedly in his welcoming address, that "Europe without the British is unthinkable".

"We in Germany are con-

vinced that we need the special

British contribution to Europe more than ever," he said.

The response from the Queen was slightly more subdued, with the emphasis rather on bilateral relations and her enthusiasm for German unification. Yet she rose to the European theme, with a firm statement that "We British are Europeans. That means that we are your partners in the European Community."

"Building the European Community has never been easy," she added. "Nor, as so much of our continent emerges from a dark age, has it ever been more important."

Both heads of state were anxious to paper over some of the recent verbal cracks in the bilateral relationship, with

good humour if possible.

The Queen remarked that "like all close friends, we do not always see eye to eye, but, as friends should, we try not to let the sun go down on our quarrels. We have too much to lose to allow that."

Her real enthusiasm was reserved for a tribute to German unification: "The division of Germany was always artificial," she declared, "and an affront to freedom. Its end was widely welcomed in the UK."

Not only that, she said, it gave her personal pleasure, "not least because many of my German ancestors had close associations with places in the new states". It was a personal touch which will underline her already huge popularity with the German population.



The Queen and President von Weizsäcker inspect a guard of honour in Bonn

Giscard warns of poisoned chalice as figures show output stagnated during summer

Bleak economic prospects worry French opposition

By David Buchanan in Paris

FRANCE'S industrial output flattened out in July and August, making opposition parties nervous about the bleak economic legacy they might inherit if they win legislative elections next spring.

The Bank of France said last week that output failed to pick up in September and indicated that there was faint hope of a quick recovery.

Publishing figures for both July and August, Insee, the government statistics office, said industrial production stag-

nated over the two-month period.

This overall figure masked falls in manufacturing production and construction of 1.2 per cent and 1.7 per cent respectively, from their June levels, which were offset by a 4.7 per cent rise in energy output.

This evidence that French industry, at best, marked time during the summer months casts serious doubt on Insee's earlier predictions of a 0.9 per cent increase in industrial output and a 0.6 per cent rise in gross domestic product in the third quarter.

The Insee output figures were largely in line with economists' forecasts, though some had been expecting a weaker figure because of the effect of a lorry drivers' dispute that blocked motorways for 10 days in early July.

Over the weekend, Mr Valéry Giscard d'Estaing, leader of the centre-right UDF, said one reason why he thought the opposition parties should be wary of forming a government, even if they win a parliamentary majority next March, is that they would find the economic situation too bad to be

redressed before the next presidential election, due in 1995.

The current opinion polls give the UDF and its electoral ally in the legislative elections, the neo-Gaullist RPR party, a 2:1 majority over the ruling Socialists.

Mr Giscard d'Estaing said the two centre-right parties should be satisfied of three conditions before again agreeing to "cohabit" in government with Mr Mitterrand as they did in 1986-88.

These were that the country's economic situation should not be too serious, that a cen-

tre-right government should be assured of enough time to improve it, and that the president should at least be neutral and preferably support any government economic policy.

At present, Mr Giscard d'Estaing said, these conditions did not exist.

Prime Minister Pierre Bérégovoy yesterday told France's opposition chiefs, impatient to take over from an ailing and unpopular President François Mitterrand, not to count on a vacancy in the Elysée Palace until 1995. He said Mr Mitterrand "is in fine fettle... If I

know him, then this rush for

candidates to take over from him will only make him want to fight with vigour."

French MPs have approved new restrictions on the financing of their political activities, which will limit corporate contributions to no more than 25 per cent of a political party's total funding and require all such contributions to be published.

The new law was passed after the government dropped its earlier aim of totally banning business contributions to political campaigns.

Smuggled uranium may be bomb-grade

GERMAN investigators believe black-market uranium seized last week was weapons-grade material despite claims to the contrary by a minister, Reuter reports from Munich.

Prosecutors are awaiting a laboratory analysis of over 2kg of uranium which was seized near Munich on Friday, the second time in a week German police turned up radioactive materials apparently stolen from stocks in the former Soviet bloc.

Mr Klaus Töpfer, environment minister, said at the weekend the Munich uranium was too weak to be used in a nuclear warhead. Scientists have said at least 20kg was needed for a bomb.

The Munich chief prosecutor, Mr Heinz Stocker, told reporters he hoped to have a final analysis of the uranium by late this week. Uranium 235, one isotope of uranium, must be concentrated to be used as an explosive or as fuel for a nuclear reactor.

Prosecutors said they were still uncertain about where the uranium had come from. Seven people were detained across southern Germany at the time, including two Czechoslovak nationals.



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NEWS: THE AMERICAS

New star rises for American Jews

Israel's US lobby is questioning its future role, writes Hugh Carnegie



THE American Jewish lobby in Washington, bruised a year ago by a scathing attack from President George Bush over Israel's request for a big package of US loan guarantees, might be excused for celebrating this autumn.

Not only is President Bush on the political ropes as he struggles against the odds to win re-election, but also Congress approved the 1993 US foreign aid bill last month, which included the full \$10bn in loan guarantees originally requested by Israel. Grants to Israel of \$3bn were the largest to any country, as in previous years. The real value of this has fallen, but as a proportion of all US foreign assistance it has risen sharply to some 30 per cent as the overall "aid-cake" has shrunk.

The consolidation of the aid followed the fall in June of the right-wing Israeli government of Mr Yitzhak Shamir, an event welcomed by many American Jews who supported his more conciliatory successor, Mr Yitzhak Rabin.

Yet Israel's supporters in the US are not celebrating much. Instead, changing circumstances have raised the prospect that the US Jewish community's high-profile fund-raising and political lobbying for Israel may have peaked.

The battle over the loan guarantees, in which US financial assistance to Israel was tied for the first time to political conditions, was a chastening experience for the Jewish lobby. But other factors have also raised questions about its future role.

In August, Mr Rabin attacked the most prominent American Jewish lobbying organisation, saying it had damaged US-Israeli relations by its aggressive tactics. More subtly the traditional concentration on pro-Israel activity may have been undermined by the apparently receding threat to the Jewish state from its Arab neighbours and growing internal concerns within the US Jewish community about its own erosion by assimilation.

There are literally dozens of pro-Israel groups operating in the US, where the 6.5m Jewish population is 2m more than that of Israel itself. "It is probably the most highly organised ethnic community in the world," says the director of one such group.

The Conference of Presidents of Major American Jewish Organisations has 48 member groups. Privately-raised funds for Israel, including Israel Bonds, total almost \$2bn a year.

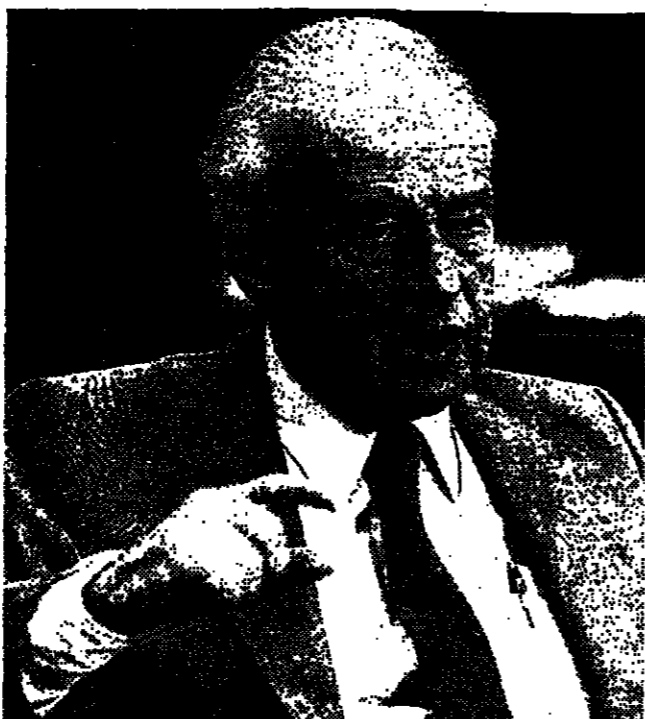
The main lobbying group is the Washington-based American Israel Public Affairs Committee, or Aipac. With an annual budget of \$17m, a staff of 140 and nine offices around the US, Aipac has developed into a powerful advocate of support for Israel, lobbying both Congress and the administration.

It was Aipac which was the main focus in September 1991 of an unprecedented attack by President Bush on the Jewish lobby for attempting to push the loan guarantees through Congress in defiance of his insistence that they be delayed until after the Middle East peace conference in Madrid the following month.

Aipac - and the 1,000 volunteers it had brought to Washington to lobby Congress members on the issue - was routed by the president. Congress quickly agreed to the delay. It was the biggest reverse for the Jewish lobby since President Reagan pushed through the sale of AWAC early-warrior aircraft to Saudi Arabia in 1983.

The shock of the defeat was compounded when President Bush linked approval of the guarantees - intended to aid the absorption of mass immigration to Israel from the former Soviet Union - to his demand that Mr Shamir freeze Jewish settlements in the occupied territories.

This brought to the surface longstanding disquiet among many American Jews over the commitment by Mr Shamir and his Likud party to eternal Israeli rule over the West Bank and Gaza and to expanded settlements. A poll of top American Jewish leaders showed 75 per cent in favour of a settlement freeze in exchange for the loan guarantees.



In April, Mr Rabin accused Aipac of harming US-Israeli relations

"The community was not divided about fighting for the loan guarantees - but people were dismayed and appalled at Shamir for giving greater priority to the settlements. People were mad primarily at Bush, but they were also mad at Shamir," says Mr Thomas Smiering, director of Project Nishana, an American Jewish organisation that supports territorial concessions by Israel.

Mr Rabin himself provided a further, unexpected jolt when he took Aipac to task during a visit to Washington. This partly reflected concern that Aipac had too willingly championed Likud positions. But it was more an expression of Mr Rabin's view that the US-Israel relationship is a government matter which can be upset by Aipac attempts to exert pressure through Congress.

Aipac staffers - they decline to be quoted - insist they will continue to do business as usual. They see, if anything, a greater need to lobby for aid at a time when foreign aid programmes are coming under increasing political pressure in the US.

But others say a deeper shift may be taking place within the American Jewish community.

Now that Middle East peace talks are well under way and as Israel's economy matures, the urgency of protecting Israel against a perceived existential threat has been blunted.

The Rabin government itself is looking to American Jews for business investment, rather than hand-outs and propaganda support - a message which Mr Shimon Peres, the foreign minister, conveyed last month to Israeli diplomats working in the US.

In this climate, more domestic concerns could come to the fore. The greatest of these is assimilation and the long-term threat this poses to the Jewish community's strength. A study of the US Jewish population published last year showed that 52 per cent of those who married between 1985 and 1990 chose a non-Jewish spouse.

"American Jews are going to be seeking a new role for themselves under the Rabin government," says Mr Harry Wall, the Anti-Defamation League's representative in Jerusalem. "[The growing concern] are internal focal issues, not external threats, so it is quite possible to see a turning inward by American Jews."

Colombia assesses quake damage

STRONG aftershocks rattled Colombia yesterday after two big earthquakes and an eruption of fire, steam and boiling mud from a volcanic mound killed at least five people, AP reports.

Reports of injuries and structural damage still trickled in from isolated villages cut off by Sunday's earthquake of 7.2 on the Richter scale and Saturday's tremble of 6.5.

The worst of the disaster fell on a rural area in north-west Colombia where a crater exploded in a huge ball of fire on Sunday. The explosion caused a three-metre-high wall of mud.

The afflicted region, San Pedro de Uraba, is in a mountainous, coffee growing area of northern Colombia, about 200km north of Medellín.

US household group forges Chilean link

Procter & Gamble, the US household and personal care group, has teamed up with Chile's leading pulp and paper manufacturer to supply southern Latin America with disposable nappies and feminine hygiene products, writes Leslie Crawford in Santiago.

Procter & Gamble has paid \$95m for a 50 per cent share of Prosan, a disposable nappy company owned by Compania Manufacturera de Papeles y Cartones (CMPC). In addition, both companies will be linking their operations in Argentina to export their products to Uruguay, Paraguay and Bolivia. Sales are expected to top \$200m next year.

CMPC recently inaugurated a new \$600m paper pulp plant in southern Chile built in partnership with Simpson Paper of the US. CMPC will be supplying Procter and Gamble with cellulose for its operations elsewhere in Latin America. The deal is the most recent example of the drive by Chilean companies to find new export markets, often in association with foreign partners.

Venezuela pushes ahead with electricity price rises

By Joseph Mann in Caracas

VENEZUELA'S government has approved a series of price rises by public and private electric power companies, despite widespread opposition.

The increases, to be staggered over 36 months, will cover residential, commercial and industrial subscribers.

The cost of electricity is a big political issue in Venezuela, even though rates are relatively cheap compared with the rest of the world. In March President Carlos Andrés Pérez ordered a temporary freeze on planned price increases because of political pressure following an attempted coup d'état in February.

The government has not released details of the price rises, but officials said they involved "very small" monthly increments. The rises should boost the government's

A freeze was ordered after an attempted coup in February

flagging privatisation programme - several electric power companies are due to be sold this year and next. They should also improve the inflation-hit profits outlook

for Venezuelan power companies: the country's largest private electricity utility, La Electricidad de Caracas, recently announced an indefinite suspension of dividends due to the rate freeze.

Mr Alirio Parra, minister of energy and mines, said the increases were intended to reduce the large gap between residential and commercial power rates. For many years Venezuelan industry and commerce have been subsidising residential consumption by paying higher prices.

The minister stressed that, even when the new rates were effective, Venezuela's power costs would continue to rank among the lowest in the world.

Caribbean alarm at plutonium shipments

By Canute James in Kingston

SEVERAL governments and environmental protection groups in the Caribbean are combining to protest against what they say is the planned use of the Caribbean Basin for shipments of plutonium from France to Japan over the next eight years.

The first shipment, on the 3,500-tonne Japanese vessel, the "Akatsuki Maru", will pass through the Caribbean "in a few weeks", according to environmentalists.

This will be followed by 38 more shipments from Cherbourg, France, to Japan, where the plutonium is to be used in fast breeder nuclear reactors.

The ship has already been banned from the territorial waters of several countries, and the cargo has raised the concern of governments along likely alternative routes, including Malaysia, South Africa and Argentina.

Greenpeace, the environmental group, says the "Akatsuki Maru" will be attempting to travel in secret on a route which will take it through the Caribbean Sea.

Government sources in the Caribbean say the ship will be accompanied by armed vessels.

"Sea transport of plutonium raises a number of serious problems," said the Caribbean Conservation Association, a regional environmental protection lobby.

"Ships are particularly susceptible to on-board fires or collisions, and as the shipments will pass through the open sea as well as coastal waters, a release of plutonium could affect both the marine and terrestrial environment."

Jamaica's environment ministry said the island's government would oppose the plutonium shipment through the Caribbean.

"Jamaica's position is to keep the Caribbean free of the transport of such hazards," according to a ministry official. There was no indication, however, as to what form the government's opposition to the shipment would take.

The growing opposition to the planned shipments of plutonium is based also on fears of an adverse economic impact on the region.

Many island economies are heavily dependent on tourism and hoteliers say prospective tourists might be reluctant to visit the region because of concerns over the presence of the plutonium.

Bahamas accounts overdrawn

By Canute James

THE Bahamas government is withholding release of \$33m in cheques it has written because its domestic bank accounts are overdrawn.

Mr Hubert Ingraham, the prime minister, said it was "unacceptable for the public treasury of a sovereign state to be in a scandalous position whereby \$33m in cheques are written to pay government bills, but cannot be released because there is no money in the government's overdrawn bank accounts for the cheques to be honoured."

Mr Ingraham, who took office in late August, said tax collection methods would be improved, especially of customs duties which account for more than half the government's revenue. However, the administration would not change the tax regime, in which incomes are not taxed.

He blamed the previous administration of Sir Lynden Pindling, saying the budget deficit grew from \$35m in 1990 to \$82m last year. Mr Ingraham said the policy of a balanced current budget had been abandoned under the previous government.



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JF Philippine Fund Inc.



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30th June 1992

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Ghost of campaign past drives Democrats

Carter's 1976 success in Ohio is lifting Clinton camp, writes George Graham



DEMOCRATIC party organisers usually recoil from any parallel with President Jimmy Carter, the last Democrat to win the White House. But in the mid-western state of Ohio Governor Bill Clinton's campaign is trying to take a leaf from the Carter book and win it away from the Republicans for only the second time in 25 years.

Mr Carter, like Mr Clinton the governor of a southern state, did well enough in the conservative and rural areas of south and west Ohio as well as the traditionally Democratic north-eastern belt to carry the state in 1976 by a 50,000 vote margin. "Democrats usually try to run very, very hard in northern Ohio to make up for losses in central and southern Ohio. We made a strategic

decision to attack Ohio across the board," says Mr Mark Longabaugh, state director of the Clinton campaign.

Republicans, too, remember the 1976 campaign and they are determined not to repeat the weak scores of President Gerald Ford in traditional Republican strongholds.

Mr David Yost, a spokesman for the Bush campaign in the state, says: "Although Ohio has a Republican base, they are independent Republicans and you have to go out and persuade them."

With just two weeks to go to the election it is the Democratic strategy which seems to be paying off.

One poll published by the Columbus Dispatch showed Mr Clinton trailing President George Bush by substantial margins in the Dayton

and Cincinnati areas of south-western Ohio, but more than holding his own in the central and south-eastern parts of the state. He also held a 20 percentage point lead in the north-east, which accounts for more than 40 per cent of Ohio's votes.

That poll gave Mr Clinton a statewide lead of 7 points, but more recent polls have shown a steadily widening margin of as much as 17 points, with Mr Ross Perot, the Texas independent, barely making inroads.

Ohio's Republican leaders have voiced open dissatisfaction with Mr Bush's campaign efforts. "I have to tell you I'm a frustrated governor," said Republican Governor George Voinovich on Sunday, adding he believed the election would be won by the Democrats "unless George

Bush can do a better job between now and election day to define who Bill Clinton is in terms of his experience".

At this stage of the campaign Ohio's fate is critical to Mr Bush's chances of re-election. The Republicans have all but written off their prospects in California and Illinois, and with Michigan and Pennsylvania leaning firmly in Mr Clinton's direction, it is hard to see how Mr Bush can muster a majority in the electoral college without Ohio's 21 votes.

Yet issues the Bush campaign has sought to exploit in the state — such as Mr Clinton's espousal of higher fuel economy constraints, which could damage carmakers in northern Ohio — do not appear to have swayed many voters. Nor have Mr

Bush's more venomous attacks on his opponent's patriotism and morals done him much good, to judge by interviews with voters.

Indeed, Ohio has had its own bout of sniping, with the Republicans suggesting the Clinton campaign had won the endorsement of former Perot supporters by offering to pay off their earlier campaign debts, a charge Mr Longabaugh dismisses.

At the same time Mr Bush's opponents say his campaign in Ohio is mirroring the plight of his national campaign, where he has had to devote unusual amounts of resources to traditionally Republican states like Texas and Florida.

The president's visits to Ohio have been concentrated on Republican strongholds such as the north-west-

ern farmbelt. "It's fertile farmland, but it's not a fertile place to pick up undecided voters," says Mr Longabaugh.

But the state's Republican party has able campaigners and a strong organisation. It is still buoyed by Mr Voinovich's victory over the Democrats in the 1990 gubernatorial election.

And despite Mr Bush's difficulties, the Republicans appear at the moment to have a better chance than they could have dreamed of three months ago of winning one of Ohio's US Senate seats.

Democratic Senator John Glenn, an astronaut who has never won less than 62 per cent of the vote since he was first elected in 1974, holds no more than a 3 point edge over his challenger, Lieutenant Governor Michael De Wine, according to some polls — although other pollsters put his lead as high as 20 points.

IMF warns of errors in capital flow statistics

By George Graham in Washington

ECONOMIC policymakers could be making the wrong decisions because of large and growing errors in the balance of payments statistics they are using, the International Monetary Fund has warned.

After a three-year study of international data on capital flows the IMF found the global capital account, which should reach zero because net outflows from one country should be offset by net inflows in another, showed an apparent surplus averaging \$40bn (\$23.2bn) a year.

The discrepancy has climbed by more than 50 per cent a year to reach \$65.8bn in 1989, an IMF working party found. Actual errors could be even larger as some positive errors cancel out negative errors.

IMF officials said inadequate statistics on capital flows "call into question the data on the basis of which decisions are taken and potentially, at least, impair the appropriateness of those decisions".

Bad data could, for example, affect the view of a country's national saving levels or alter the management of sovereign debt problems.

The abolition of exchange controls in many countries, coupled with the internationalisation of stock and bond investments, has made it more difficult for countries to keep track of capital flows.

But the IMF found further errors arising from offshore financial centres, multinational corporations, Dutch financial institutions and a "deplorable deterioration" in reporting by international organisations.

The working party was able to identify some gaps and make adjustments averaging \$23.4bn a year, but called on the leading industrial countries to make an effort to improve their national balance of payments statistics.

NY incentives stave off Morgan Stanley move

By Karen Zagor in New York

MORGAN STANLEY, one of New York's leading investment banks, has scrapped its plans to leave Manhattan after being offered incentives that will save it about \$39.6m (\$23m) in the next decade.

The move underlines the growing efforts of the administration of Mr David Dinkins, New York's mayor, to persuade big companies to remain in the city. There were growing fears that a wave of departures was threatening the city's economic and employment base.

In August, Prudential Securities, the country's third biggest brokerage house, said it would keep its headquarters and

back-office operations in Manhattan after it was offered a \$106m incentive package of tax and energy rebates.

In the same month the city agreed to pay half the cost of a new \$150m trading centre to encourage three of New York's five commodities exchanges to remain in the city, preserving 9,000 jobs in downtown Manhattan.

The city's onerous corporate tax structure, along with high crime rates and high rental costs, have driven several big investment houses to move their back-office operations from the city.

Morgan's decision to stay represents a considerable feat for Mr Dinkins' administration.

The bank had earlier announced plans to move to Connecticut, had acquired an option on a building site and developed architectural plans.

Mr Dinkins said Morgan Stanley was expected to contribute nearly \$911m in direct taxes to New York city and state in the next 10 years. He said the bank generated more than \$2bn a year in economic activity in the city. The bank will retain about 4,100 jobs in Manhattan and Brooklyn.

In addition to the Morgan Stanley offer, the administration announced plans to freeze corporate tax rates for four years. This is in addition to a previous commitment to freeze real property tax rates.

Resistance from some banks undermining \$23bn package

Argentine debt deal 'put at risk'

By John Barham in Buenos Aires

ARGENTINA'S chief debt negotiator said yesterday that resistance from a few banks in accepting a foreign debt reduction plan could threaten the entire \$23bn (\$13.3bn) package.

"It's take it or leave it. If the banks don't agree, there will be no deal," Mr Daniel Marx said.

However, he said banks were largely being won over and he was optimistic that the reduction mechanism would come into effect early next year, as originally planned.

The problem arises from the sharp decline in US interest rates which has undermined the attractiveness of the package, piloted by Economy Minister Domingo Cavallo, under which Argentina would convert \$23bn in commercial bank debt into two types of 30-year bond. At present Argentina pays no principal and only \$70m a month in interest.

Creditors could either take per bonds, which preserve debt principal but yield a low, fixed interest of 4 per cent a year, rising gradually to 6 per cent in the seventh year. Or they could opt for discount bonds



Low US interest rates are threatening debt package piloted by Domingo Cavallo

which preserve only half the principal but pay floating interest rates of 1/2 of a percentage point over Libor.

Low US interest rates have now made per bonds more attractive than discount bonds. The difficulty is that multilateral agencies like the World Bank and International Monetary Fund, which are backing

the package with \$2.4bn-\$2.5bn in loans, would only lend if at least 35 per cent of the debt was converted into discount bonds.

Argentina needs the loans, plus additional ones from the Japanese government, to buy US Treasury zero coupon bonds as collateral for its bonds.

A banker in the US said that Mr Marx had his hands tied. "Banks realise that if there is not a 35-65 mix, there can be no [debt reduction]," he added.

Mr Marx said close to 30 per cent of the debt had already been converted into discount bonds, up from 25 per cent last week.

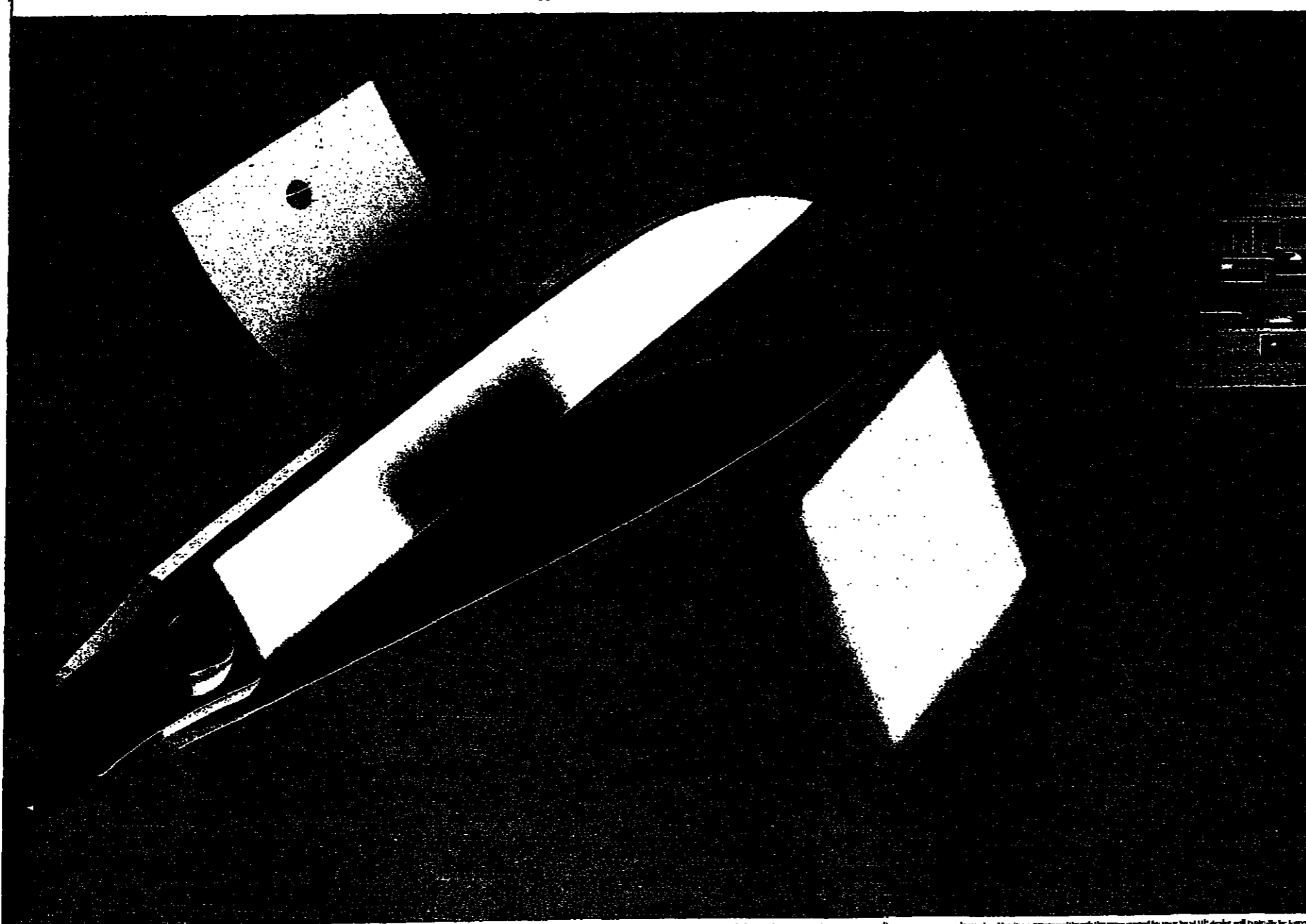
Shining Path crackdown continues

PERU'S anti-terrorism police have detained the possible successor to Mr Abimael Guzman, chief of the Shining Path rebel movement who was arrested last month, judicial sources said yesterday. Reuters reports from Lima.

Mr Ramirez has been described by President Alberto Fujimori as the third most important Shining Path leader. He was seen as a possible successor to Mr Guzman after he and his deputy, Elena Iparraguirre, were arrested.

Mr Guzman and 10 of his lieutenants have been jailed for life on treason charges. His detention has been considered the hardest blow dealt to the guerrillas in their 12-year campaign.

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NEWS: WORLD TRADE

EC officials see Gatt breakthrough

By Lionel Barber in Brussels

EC OFFICIALS yesterday proclaimed a breakthrough in the Gatt multilateral trade talks, declaring an outline deal with the US on agriculture and services could be reached within the next fortnight.

After high-level talks in Ontario at the weekend, EC officials in Brussels abandoned their customary caution and talked up prospects for a successful end of the Gatt Uruguay Round before the November 3 presidential election.

Despite continuing signs of French reservations about the proposed agreement to cut farm subsidies, the officials suggested the tide had turned in favour of a deal, largely because it is viewed in Europe and the US as the "last best hope" for a world economic recovery.

Mr Ed Madigan, US agriculture secretary, also voiced optimism yesterday. "We're hopeful. We're making a little headway but we're not there yet," he said. "We're trying to be flexible in these talks. We are not rigid but neither will we break."

Last week's warning by Mr Alan Greenspan, Federal Reserve chairman, that the US and Japan faced the most severe recession since 1945, may have influenced the mood of negotiations as much as President George Bush's desire for a boost to his flagging re-election campaign.

Mr Ray MacSharry, EC farm commissioner, and Mr Madigan spoke on the telephone at the weekend and are expected to meet within the next week or so in an effort to crack outstanding differences: the extent to which the EC must cut its oilseeds output, and formulas for cutting subsidised exports by up to 24 per cent.

The Madigan-MacSharry meeting was described yesterday as the chance to "clinch the deal". Optimism has risen after the US conceded that compensation to European

EC finance ministers yesterday agreed to urge 13 developing countries to improve their offers under Gatt on opening financial services markets. Andrew Hill reports from Luxembourg. The EC is most worried about Pacific Rim countries, such as Singapore.

farmers for price cuts agreed in last May's Common Agriculture Policy reform should be exempt from the Gatt requirement to cut overall domestic subsidies by 20 per cent.

Officials said rapid progress had been made in services, though differences remain on the treatment of audio-visual equipment and maritime transport. On financial services, the US and EC are near a deal, but divisions remain with other countries, including Japan.

At best, the US and EC should be able to produce a piece of paper in a fortnight which will proclaim both sides' confidence that a final text could be agreed by the end of the year, or early January. But questions remain about France's attitude to a deal so obviously desired by the US.

EC officials say there is no point in forcing the Gatt issue to a vote in the Council of Ministers until a final text is agreed. Despite the widely-held view that France could be outvoted in the council, some legal experts in Brussels warn it is unclear whether all trade policy is subject to a qualified majority vote under Article 113 of the Treaty of Rome.

● Nancy Dunne adds from Washington: Negotiations were being watched closely yesterday by the presidential campaign team behind Governor Bill Clinton, which is concerned that a final package be acceptable to Congress. A campaign spokesman stressed that no signal had been sent to Brussels to indicate the governor's support for unsatisfactory US concessions, particularly those made under pressure from the election.

Japanese to keep foreign rice ban

By Robert Thomson in Tokyo

JAPAN'S agriculture ministry insisted yesterday that the rice market would remain closed to imports regardless of EC-US negotiations on farm products trade.

Tokyo has watched the apparent progress in US-EC talks anxiously, as the present factional struggles within the ruling Liberal Democratic party (LDP) have distracted party leaders from the politically-sensitive issue of rice imports.

The agriculture ministry said the ban would not be relaxed, even if the EC and US reach a formal and final agreement as part of Gatt's Uruguay Round.

Mr Frans Andriessen, EC external relations commissioner, has said multilateral farm talks could resume soon. His comment followed a week-end meeting with trade ministers from the US, Japan and Canada, at which negotiators were said to be on the verge of making progress on the outstanding issues of farm subsidies and oil seeds.

An understanding exists among senior LDP officials that rice imports must eventually be allowed, if only in limited amounts. But last week's resignation of Mr Shin Kanemaru, the party's powerbroker, reduced any prospects for liberalisation.

Mr Kanemaru was one of few Japanese politicians with the prestige needed to deal with an issue as complex as rice. He is known to have accepted that opening the rice market was inevitable.

But before opening the market, the LDP would have to begin talks with the influential farm lobby. Few LDP politicians want to be linked with the change of policy on rice, which the farm groups say has a sacred role in Japanese life.

Mr Koichi Kato, chief cabinet secretary, said yesterday that the Japanese government was watching the progress in talks between the US and EC, and would "cautiously consider future events".

Brazil becomes computer compatible

A notorious ban on informatics trade is to give way to tariffs, writes Bill Hinchberger

BRAZIL'S notorious informatics laws, which prevented imports of foreign computers and ensured the country missed out on much of the 1980s technological revolution, are to be abolished next week.

In spite of the fact that a combination of tariffs and high taxes will continue to keep computer prices high, big-name companies such as Digital Equipment Corporation, NEC, IBM, Acer, Bull and Hewlett-Packard are among at least 13 foreign corporations which have already announced partnerships with local companies to manufacture or distribute their products.

A further 20 or more deals with foreign companies were signed at a São Paulo computer trade fair last month, according to Mr Carlos Rocha, president of the Brazilian Computer Industry Association.

Jockeying for position - by both foreigners anxious to get at a \$7bn market and locals intent on survival under new rules - has been fierce since Congress passed the law late last year.

Under that law, which comes into effect on October 28, import restrictions will be lifted, though some relaxation of import rules has already taken place. Gradually declining

Brazil: informatics import duties (%)				
	July 92	July/Oct 92	Oct 92	July 93
Microprocessors and liquid crystal displays	30-50	0	0	0
Unassembled printed circuits	30	20	20	15
Semiconductors	40	20	20	15
Subassemblies and modules	35-50	30-40	25-35	20-30
Finished products	50	45	40	35

Source: Brazilian Department of Foreign Trade

ing tariffs - which from the start of this month range from 40 per cent for finished products to zero for vital components not produced locally - will now present the main impediment to imports of digital technology for both computers and telecommunications equipment.

Barriers to local manufacturing by foreign companies will be dismantled. The only previous exceptions were for main-

frame manufacturing by IBM and Unisys, whose product lines had no local competition. The old Brazilian legislation, established by the military government in the 1970s, has long been cited by free traders as a perverse example of the protectionist policies common in Latin America at the time. Not only did the Brazilian computer industry get stuffed into a technological time capsule, missing out on many advance-

ments of the 1980s, but the entire economy suffered as all sectors were denied access to efficiency-boosting technology.

The new law encourages joint ventures: foreign partners may own 49 per cent of voting shares, and 100 per cent of non-voting shares, and the resulting company can still qualify for preferential treatment as "Brazilian" when bidding for government contracts and credit.

Traditional arguments for partnerships are evident as well. "We've got the technology, and they've got good manufacturing capabilities," explained Mr Thomas Offutt, vice-president for international sales of Link Technologies, a California-based maker of video terminals, about his agreement with São Paulo-based TDA.

The new regulations have also been greeted by liberal import approval policies by once-pernickety Brazilian authorities. "The opening began over a year ago," said Mr Zeke Wimer, president of Oracle do Brasil, subsidiary of the US software company. "You could bring in any hardware you wanted if you could justify it."

At the trade fair last month, Oracle software was running on 28 different types of hard-

ware, including Compaq and Digital systems. "At last year's fair, they were all national makes," said Mr Wimer, who is also president of the American Chamber of Commerce in São Paulo.

Despite this influx, the Brazilian computer industry has yet to fade away, as some pundits expected, although production of micro-electronic products and computer accessories are down sharply. Mr Rocha admitted to a "partial de-industrialisation".

Some of the more than 300 Brazilian hardware companies have indeed gone out of business or merged with competitors, but about 90 per cent of sales were already concentrated in about 70 companies. Mr Rocha said. "We used to talk about 300 companies, but some of those were small businesses that just assembled kits."

Despite the dismantling of protectionist barriers, high tariffs and high taxes - with resulting high prices - will encourage the widespread contraband market, especially in components and personal computers. Mr Rocha estimated that of the 250,000 units of microcomputers and accessories sold each year in Brazil, about 150,000 were smuggled into the country.

ABB urges India to stick by rail deal

By Stefan Wagstyl in New Delhi

ASEA Brown Boveri, the European engineering combine, yesterday urged India not to abandon a controversial \$190m (£110.4m) contract to buy imported high-tech locomotives.

ABB executives, in India to plead their case, insisted New Delhi should stick to its March decision to award the contract to ABB after a four-and-a-half-year bidding process.

ABB won the contract for the supply of 30 locomotives against tough competition from three other international bidders, including a partnership between Sumitomo and Hitachi, the Japanese trading and engineering companies.

But protests have since surfaced on the grounds that India does not need expensive imported technology when it has large railway workshops of its own. The government has yet to sign a contract with ABB, or indicate when one might be signed.

The arguments show that despite the economic liberalisation programme launched by the government of Prime Minister Narasimha Rao, doing business in India can still be fraught with problems. ABB, which has a large Indian affiliate employing 4,000, has been supplying Indian railways since the 1960s. When India decided in the early 1980s to start replacing some of its steam- and diesel-powered locomotives with electric ones,

ABB was a front-runner. In 1986, it supplied six of 18 electric locomotives India imported on an experimental basis.

Locomotive technology then underwent a drastic change, with the introduction, principally by ABB, of a new generation of micro-chip-controlled alternating-current engines. So, when India invited offers for 30 more locomotives, it was able to consider a more modern engine, but one which was more expensive.

After four years' deliberation, the railway ministry awarded the contract to ABB, but the decision went for review before the railway convention committee, a government panel. The panel recently advised the government to act in its own best judgment, but

only after committee members had dropped hints urging scrapping of the contract.

The committee's concerns focused on the cost of the project and a desire to promote India's own engineering industry. Members questioned whether it would not be better to buy home-made locomotives costing about a tenth the price of the imports. Yesterday, Mr Amandus Jaeger, vice-president of ABB Transportation Systems Switzerland, an ABB subsidiary, said the advantages of the new-generation technology for India were "tremendous". The contract included the transfer of the technology needed to make them. India would be able to produce the new high-tech engines in Indian factories.

Malaysian power stake goes to UK

NATIONAL Power of the UK is to invest in and operate Malaysia's first two privately-owned power stations, due to have a total capacity of 1,000MW by 1995, Alexander Nicoll, Asia Editor, writes. YTL, a Malaysian company, said yesterday it had accepted a counter-proposal from the Malaysian government on its plan to build the gas-fired stations at Paka, Terengganu and Pasir Gudang, Johor. Private finance will be raised without Malaysian government guarantee. Gas will be supplied by Petronas, the state oil and gas company; the electricity will be sold to Tenaga Nasional, the state electricity company.

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ware, including Compaq Digital systems. "At the fair, they were all looking for a deal," said Mr. Hinchberger, who is also president of the Brazilian Chamber of Commerce in São Paulo.

Despite this influx, the Brazilian computer industry is yet to take off, as some analysts expected, although the introduction of micro-electronics and computer systems are doing sharply. Mr. Hinchberger admitted to a "partial devaluation".

Some of the more than 100 Brazilian hardware companies have indeed gone out of business or merged with others, but about 50 per cent of sales were already in the hands of Mr. Rocha said. "We have sold about 200 computers, some of those were small ones that just came in."

Despite the discounts, protectionist barriers, high taxes and high prices, the resulting high prices encourage the widespread use of computers and personal computers. Mr. Rocha said that of the 250,000 micro-computers and software sold each year in Brazil, about 150,000 were imported into the country.

Malaysian power stake goes to UK

NATIONAL Power of the UK is to invest in and operate Malaysia's first two private power stations, due to be built by 1995. Alexander Kinnaird, a UK company, said it had accepted a contract from the Malaysian government to build and operate two 1,000 MW power stations at Terengganu and Kelantan. John Hinchberger, a UK company, will be the main contractor for the project. The project will be a major step in the development of the Malaysian power industry.

IT

NEWS: INTERNATIONAL

Patten faces Wheel turns full circle for Deng protégé

trying time in Beijing

By Simon Holberton in Beijing

MR CHRIS PATTEN, Hong Kong's governor, arrives in Beijing today for what is expected to be a difficult round of discussions with Chinese leaders on his plans for the colony's political development.

Yesterday the state-owned media gave full coverage to Patten's arrival in Beijing for his proposals for greater democracy in Hong Kong and to his plans for settling the dispute about the financing of the colony's multi-billion dollar airport.

On October 7, Mr Patten put forward proposals for the conduct of the colony's 1995 elections which provide for much greater democracy than for those held a year ago.

The governor will hold talks with Lu Ping, director of the Hong Kong and Macao Affairs Office of the cabinet. At the weekend Lu was elevated to full membership of the Communist party's central committee, as was Zhou Nan, Beijing's unofficial ambassador in Hong Kong.

The tone of communist Chinese media coverage of Mr Patten, both in Beijing and Hong Kong, suggests that Lu will be uncompromising in his rejection of the governor's plans for more democracy.

The latest edition of Outlook Weekly, published yesterday,

contained a long article detailing confidential Anglo-British talks held in the weeks preceding Mr Patten's October 7 speech to the local Hong Kong legislature.

It said on October 3, Lu delivered a strong response to a September 26 note from Mr Patten in which he sketched his plans for the colony's political development. Outlook said Lu told Sir Robin McLaren, Britain's ambassador, that for the sake of Hong Kong's "stability and prosperity", democracy should be developed step by step. Its development should be consistent with the Basic Law - the Beijing-drafted mini-constitution for the colony after it reverts to Chinese sovereignty in 1997.

The magazine was also critical of the way in which Britain informed China of the governor's proposals. Mr Patten should have given a detailed, not summary, account of what he was going to say, Outlook said.

"He should have listened carefully to opinions from the Chinese side and reached consensus through discussions and revision before making an announcement. Only in that way could his approach be regarded as being responsible, co-operative and 'in good faith'," it said.

Simon Holberton on the elevation of once-disgraced reformer Zhu Rongji to the politburo

NO ONE knows better the capricious turns of the wheel of fortune than Zhu Rongji, the man in charge of China's industry, who yesterday was vaulted on to the standing committee of the Communist party's politburo, its most powerful council.

From his new position of power - Zhu is fifth in the leadership - he is expected to be the driving force behind the implementation of the party's policies towards further economic liberalisation.

In his quiet moments, however, he may ruefully reflect that Deng Xiaoping, 88, has been both his nemesis and greatest patron.

Like many talented young intellectuals in the 1960s, Zhu, now 64, took Mao Zedong at his word when he called upon the nation to criticise the Communist party under the rubric "Let a hundred flowers bloom, let a hundred schools of thought contend". He was not aware that this was a ruse; what Mao intended was to root out sources of opposition to his peculiar brand of idealistic and autarkic communism.

When the Great Helmsman launched his "anti-rightist campaign" in 1957 he placed Deng in charge. Deng, ever the efficient one, rooted out hundreds of thousands of intellectuals who were removed from their jobs in the party and government. The brain of China was lobotomised.

From 1957 until his "rehabilitation" in 1979, Zhu worked in Beijing in planning and economic ministries. By the early 1980s he was on the move, rising to the deputy director's position of the State Planning Commission and lecturing in economics.



Deng Xiaoping waves to party delegates yesterday. He seemed weaker than when last seen in public in June.

Deng also watched his progress and in 1987 Zhu was appointed mayor of Shanghai, succeeding Jiang Zemin, the current secretary-general of the party. In 1989, when students rioted in Shanghai, Zhu was able to restore order without resort to the military.

Until a day ago Zhu was not even a full member of the central committee, just an alternate, let alone on the politburo. But under the patronage of Deng, the man who exiled him for 20 years, Zhu's rise has been extraordinary.

Recently he was placed in charge of the cabinet's economic and trade office from which he will have the largest say in China's economic policy. He is solidly pro-economic reform and his elevation to the top group in the Communist party has been taken as a positive sign that China's elderly leadership has been prepared to back up the rhetoric of the last week with people capable of making it happen.

Zhu is one of three new members of the Politburo standing committee. The other two, Hu Jintao, 49, and General Liu Huaqing, 76, are both seen as reform-minded communists.

Hu, the former party secretary in Tibet, is the protégé of Hu Yaobang, Deng's first cho-

sen successor who fell from power in 1986. General Liu, a veteran of the Long March and the man responsible for modernising China's navy, is a close associate of Deng and fought with him during the civil war against the Nationalists in the late 1940s.

They join Li Ruihuan, 58, a reformer and liberal-minded propaganda chief, and Qiao Shi, 68, head of state security. Qiao is thought to be a moderate in economic reform terms.

He is also a survivor. He argued against the use of force in June 1989 but not enough for his loyalty to be questioned. When force was used he was in the forefront of those justifying the action taken.

The party has increased the number of people in the politburo from 14 to 20, with two alternates. Most are professionals and most are seen by Beijing analysts as pro-economic reformers.

The party bosses of Guangdong, Shandong, Tianjin, and Shanghai were all elevated to the politburo. The only hardliner of note to be appointed was the mayor of Beijing.

The representation of the provinces and big cities is significant for two reasons. First, these are the areas of China which have best taken to reform; their leaders also have a keen sense of what plays well among the people.

Second, the Beijing leadership has wanted them in the inner sanctum to make sure

they do not stray too far from party orthodoxy. The "centre", as Beijing is known, has had difficulty controlling the provinces and the appointments of senior provincial leaders may serve that purpose.

But if the new appointments to the politburo suggest a victory for Deng and his programme of economic reform, there is little evidence that the party has any interest in embracing political reform. Li Ruihuan may lift the load on the hand of the state from some cultural activities, but the party is keenly aware that economic reform could also pose political and social problems.

Last month it issued a secret directive to senior provincial and military officials warning that they must "prevent security problems from turning into political events". Worker unrest - through strikes and assaults on managers - seems to be a key worry.

It is in this context that analysts in Beijing view the increased representation of the military in the central committee. Of the full members of the committee, about 23 per cent are from the military; when alternates are included, the figure drops to about 20 per cent.

For the past 15 years the military's representation in the central committee has been on the decline, falling to 19 per cent in 1987. Although this year's rise seems slight, analysts in Beijing said plans to liberalise the economy further meant the party wanted to make sure of the military's allegiance.

Japanese avoid decision on product liability law

By Robert Thomson in Tokyo

A JAPANESE government panel considering the introduction of EC-style product liability laws has declined to make a judgment and requested that another panel be established to review the controversial issue.

The Social Policy Council, part of the prime minister's department, was supposed to deliver a final decision yesterday on liability laws, debated for 17 years and facing opposition from manufacturers who fear Japan would become a more litigious society.

In the final report, a subcommittee of the council said a product liability law was desirable, but its introduction was impossible without the support of manufacturers, so another committee should attempt to reach a consensus.

Japan has no formal product liability law, and injured consumers have to negotiate with a producer or to launch negligence actions. Since 1945, only about 150 product negligence cases have been decided, and courts are reluctant to set a clear precedent for fear of prompting a rush of cases.

The prime ministerial panel considered removing the legal requirement to prove a manufacturer's negligence, and allowing an injured consumer to prove only that the product was defective, a proposal modelled on EC guidelines on product liability.

While not delivering a judgment, the panel said a new law was unlikely to make Japanese consumers as litigious as those in the US.

The panel said the legislation would have little impact on

economic growth, while inflation would rise by up to 0.3 per cent if manufacturers added liability insurance premiums to their prices.

In negotiations between Japan and the US over "structural impediments" to trade, Tokyo has argued that US liability laws encourage excessive litigation, increasing costs for manufacturers and making US business uncompetitive. However, Washington argued that Japan's present system gives producers an unfair competitive advantage at the expense of consumers.

The Kaidanren, the country's main business federation, welcomed the panel's decision yesterday not to make a recommendation. But consumer groups said the panel's decision was an unacceptable concession to industry.

ANC admits own use of torture

By Patti Waldmeir in Johannesburg

AN INQUIRY commissioned by the African National Congress has found that the organisation severely tortured and mistreated prisoners detained in its prison camps outside South Africa in the 1980s, but the ANC refused yesterday to release the names of officials identified in the report.

Mr Nelson Mandela, ANC president, said the abuses described were "inexcusable". But the names of those who carried out torture - many of whom still hold senior positions in the ANC security department - would remain secret. No action would be taken against them until after a further inquiry.

The ANC's failure to release the names of those involved has left the movement open to the criticism that it - like the government, which last week introduced legislation in parliament to keep state crimes secret - is trying to cover up serious human rights abuses in its ranks. Mr Mandela said an independent board of inquiry would be constituted to probe the charges further and ensure that abuse did not continue.

"Some of the witnesses we saw have been brutalised and broken," the commission report states. "The government and the radical black Pan Africanist Congress will begin their first formal democracy negotiations in Botswana on Friday, Renter reports from Cape Town. The PAC has refused to join multi-party talks inside South Africa about a transition to democracy.

Keating hunts for TV compromise

Kevin Brown on Australia's pay television troubles

AUSTRALIA'S cabinet may decide today on rules for the introduction of subscription television. On the other hand, it may not. Given the government's dismal record on the issue, no one in Canberra is taking bets.

Mr Paul Keating, the Labor prime minister, has already changed his mind several times about how to introduce pay TV, most recently last week. Now it looks as though the rules are about to be changed again, adding to the confusion facing viewers, television networks and Optus, the privately owned telecommunications carrier which will provide satellite facilities.

Mr Keating initially suggested that Australia's three commercial TV networks and the government-owned Australian Broadcasting Corporation (ABC) would be allowed to hold up to 45 per cent of the equity in a single four-channel pay TV operator, which would have had a monopoly until 1989.

But in a policy somersault in June, he announced that two licences would be awarded - one for existing media companies and another for new entrants to broadcasting, who would be given a year's head start over the competition.

Now that model has been ditched as well after being rejected by the Senate, the upper house of parliament, which Labor does not control.

Last week, Mr Keating outlined yet another plan to Labor MPs. This one involved the simultaneous award of one channel to the ABC and two four-channel licences for commercial operators, one of which would be reserved for

new entrants. Mr Keating describes this style of policymaking as leading from the front. But he failed to agree the plan with Senator Bob Collins, the communications minister, the television companies, the leaders of Labor's powerful factions, or the opposition parties which control the Senate.

The result has been a frantic round of talks in Sydney and Canberra at which officials are trying to hammer out yet another compromise.

Only two things are certain: there will be protection for Australian equipment manufacturers, and strict limits on foreign investment - probably 35 per cent of each licence, with a 20 per cent ceiling on individual holdings.

The final plan is also likely to accept proposals from Optus to use digital compression, a newly developed technology which is not yet in use anywhere else, instead of the long established analogue broadcasting system.

Digital compression would increase the quality and potential volume of satellite transmissions, and avoid an expensive switch to new equipment when digital becomes the world's standard technology.

But the other elements of Mr Keating's latest proposals raise a number of tricky questions.

● Why restrict satellite broadcasting to nine channels? Optus told a Senate inquiry that it wanted to operate 24 national channels and a further 24 regional channels. Australia and Overseas Telecommunications Corporation (AOTC), its government-owned rival, is also believed to be planning to offer up to 40 chan-



Murdoch: Government is wasting its time

nels by cable within three or four years.

● Why restrict the ABC to a single channel? Mr David Hill, its chairman, says the plan would restrict the ABC to high-cost, low revenue news and current affairs. He wants several channels to exploit the ABC's expertise in educational, children's and sports programmes.

● In such a tightly restricted market, how would the operator of the licence for non-media groups compete with an experienced broadcasting group, which would start with half the market? Many analysts think there would be no bidders for such a licence.

"This does not make any sense," says Mr Fred Breachley, a Sydney media consultant. "It is a commercial idiosyncrasy which no one can explain. If we have the capacity, why can't we have the full 24 channels and four or five operators?"

"The government has not made the mental leap that is

required between existing TV systems and what is possible with pay TV. They are still looking at it as a political handout to their media mates."

The "mate" Mr Breachley has most prominently in mind is Mr Kerry Packer, chairman of Channel Nine, the top-rating television network, which could probably outbid the rival Seven and Ten networks, which are both in receivership.

Channel Nine would then dominate pay TV from the start, possibly in a consortium with overseas media groups such as Time Warner or Comcast, the US cable operator.

Mr Bruce Wolpe, a consultant to Comcast, welcomed the new plan "because it means a deal has been struck which is likely to survive the next election, and that will give a lot of confidence to the industry."

But it is far from clear that the government can strike a balance between the competing demands of the three main Labor factions, the conservative Liberal/National party coalition, and the Democrats, the small left-wing party which holds the Senate balance of power. A compromise could involve a phased release of channels, with more access for the ABC and tight regulation.

At least one potential player thinks the government is wasting its time. "I don't know what they are trying to regulate," says Mr Rupert Murdoch, chairman of US-based News Corporation. "With modern technology there is no limit to the spectrum. You could have 100 channels, and when you do that anyone can have a channel. Some will go broke and some will do well. What does it matter?"

MARKET JITTERS SEND NIKKEI PLUNGING

JAPAN'S Nikkei stock index yesterday lost 2.6 per cent and fell below the psychologically important 17,000 level amid fears of another October crash. Eiko Terazono reports from Tokyo.

"Everyone's really worried," said a floor trader on the Tokyo stock exchange. "October has always been a bad month for markets." World markets crashed five years ago yesterday, and Japan's stock

market collapsed again in October 1980.

There had been confidence within the financial community that the government's emergency support measures would keep the Nikkei above 17,000. But over the recent weeks the market has drifted lower and yesterday fell 486 points to 16,903.51.

Rumours that a leading Japanese brokerage house had advised its clients to sell

stocks worried investors. Fears of a shrinking money supply, falling company profits and the rising yen added to doubts over the economy.

Institutional investors fear the Nikkei's six-year low of 14,309.41, reached in August, may soon be tested again.

Evidence of their concern is the fall in trading volume to new lows after surging after the late August emergency moves.

Rupee falls amid speculation

By Stefan Wagstyl in New Delhi and R C Murthy in Bombay

THE Indian rupee fluctuated wildly on foreign exchange markets yesterday amid speculation that the government would soon make the currency fully convertible for trade transactions.

The government last year made the rupee partially convertible - a key part of its programme to liberalise the economy and promote foreign trade and investment.

The speculation was triggered by a Reserve Bank of India announcement warning

banks to avoid speculating against the rupee in foreign exchange markets. A central bank notice set a ceiling of \$1m on the speculative investment commercial banks could make in foreign currencies.

Since the Reserve Bank issued a similar notice just before the introduction of partial convertibility, yesterday's circular prompted rumours that an announcement on full convertibility was imminent. A leading foreign exchange dealer said: "Full convertibility is one possibility and it is the most probable outcome."

Mr V Janakiraman, deputy governor of the Reserve Bank,

said last night that the stipulation was merely to prevent the building of positions in the rupee market.

Earlier, when word about the Reserve Bank's notice spread around Bombay, the rupee fell in hectic trading before recovering slightly to at Rs30.13 to the US dollar (Rs51.84 to the British pound).

In the past, however, officials have said that the government's policy is to introduce full convertibility on the trade account as soon as India's foreign exchange reserves are large enough to protect the rupee against excessive price fluctuations.

Kurds face winter hardship, relief mission warns

By John Murray Brown in Istanbul

AT least 1.5m people could be at risk from hunger and cold this winter in the Kurdish-controlled areas of north Iraq, according to the findings of a joint US-EC relief mission to the region.

The conclusions, published yesterday, are considerably more gloomy than assessments by the United Nations in June, when it was still assumed the aid could be trans-shipped through Baghdad where the UN has still to extend the current aid memorandum, the legal basis for its relief operation since the end of the Gulf War.

The report coincides with talks in Baghdad where the UN has still to extend the current aid memorandum, the legal basis for its relief operation since the end of the Gulf War. According to the UN's original calculations, the winter shelter programme for North Iraq was to cost \$85m. The US-EC mission puts the figure at \$125m.

Turkish officials confirm the US has already approached Turkey to allow the aid to be transported through Turkey,

in the event that talks with Baghdad break down.

"It was difficult enough last year, with the government's consent. If Baghdad does not agree soon, there will be no time to stockpile supplies," said a UN official.

The UN said yesterday that approval had been given "in principle". However, agreement had still to be found on both procurement and exchange rate policy, with the UN keen to avoid using the unrealistic official rate for procurement

of one dinar to \$3.

EC officials warned yesterday relief agencies had between eight and 10 weeks to pre-position supplies before the onset of winter. Without Baghdad's agreement, relief trucks will have to use the much longer route in Kurdish areas, limiting the freight tonnage.

An economic embargo has halted traffic on the Iraqi-Turkish border at Hakkari Bridge, where Turkish Kurdish rebels have been fighting against Iraqi Kurdish forces.

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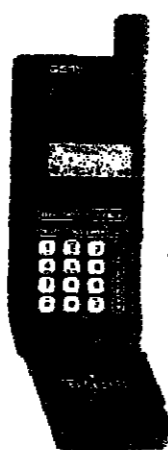
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NEWS: THE COAL CRISIS

■ Many dissident MPs return to fold ■ Opposition steps up call for independent probe ■ Slight boost to equities

Tory rebels wait to test public mood

By Ivo Dawney and Ralph Atkins

IT WAS UNCERTAIN last night whether Mr Michael Heseltine's statement on the future of the coal industry will be enough to bring Conservative rebels into line by the end of tomorrow's debate.

Most MPs seemed to believe that, barring further upsets, the trade and industry secretary's apologetic will prove just sufficient to confine the rebellion to a half-dozen MPs. If so, his compromise package will win a narrow vote in the Commons.

Clearly, a significant number of potential rebels have swung back behind the government.

Mr Tim Devlin, MP for South Stockton, revealed that he had planned to resign as parliamentary private secretary to Sir Nicholas Lyell, the attorney general, over the pit closures.

But he now had decided to vote, albeit reluctantly, with the government. "We have at least had some progress with this statement," he said.

Similar conversions were announced by Mr Richard Alexander (Newark), Mr Robert Adley (Christchurch), and Mr James Cran (Beverly) who described the statement as a "climberdown".

Nonetheless, the verdict among some Conservative backbenchers last night was that much may depend on the public's reaction.

Several MPs expressed dissatisfaction that Mr Heseltine had not included all 31 pits in the moratorium on closures and that the inquiry to be held into the industry does not look set to examine an

alternative energy policy. Mr Winston Churchill and Mrs Elizabeth Peacock, two of the most prominent protesters, indicated that they would continue to vote against the plan as they were unsatisfied by the scale of the review and the decision to press on with the shutdown of 10 pits.

Mrs Peacock (Batley and Spen) said that an initial judgment suggested that the review would result in a slight delay of the closure programme and not a thorough re-evaluation of policy. "I don't think it goes far enough," she said.

Mr Churchill (Davyhulme) said that the review was inadequate as it failed to take a strategic look at Britain's energy needs in the decades ahead. On the Commons vote, he added: "I believe the government will be running a very great risk if they go ahead."

Disquiet at the anger expressed in MPs' bulging postbags means there will be no complacency in the whips' office until the vote is harvested at 10pm tomorrow.

Furthermore, the outcome will only be clearer after the detail is unravelled. Yesterday many Tory MPs remained confused as to what shape Mr Heseltine's review would take.

It was clear that some MPs are exploiting the government's vulnerability to press for still more concessions. If Mr Heseltine's compromise clearly fails to mollify the fury of the public, now inundating MPs with up to 50 letters a day, then the current could turn against the government again.

"Forty-eight hours," said one government whip last night, "is proving a long time in politics."

'Moratorium until early in the new year'

Mr Michael Heseltine, trade and industry secretary, told the Commons yesterday:

"The government recognise the concern at the speed of the rundown and about the very great difficulties it would cause to the communities involved. We have therefore concluded that, for the time being, British Coal should be allowed to proceed with the closure of only 10 pits which they have told me are currently loss-making and have no prospect of viability in the foreseeable future."

"The pits which fall into this category are Vane Tempest, Grimethorpe and Houghton Main, Markham Main, Trentham, Parkside, Cotgrave, Silverhill, Betws and Taff Merthyr."

"Nevertheless, it is clearly important that British Coal demonstrably meet their statutory duties to consult and notify and take account of the result of consultation. No closure will therefore take place until after the statutory consultation period has been completed."

"In the case of all other closures and redundancies, I have asked British Coal to introduce a moratorium until early in the new year except for those which may be agreed by the workforce at the pits concerned."

"During this moratorium the government and British Coal will set out the full case for the closures which British Coal planned and to which I agreed. The government will also provide an opportunity for MPs to debate the issues. In addition, we will carry out widespread consultation with all those concerned over the next three months. We will then announce our conclusions following these consultations to parliament in the new year."

"If, following this process, the government and British Coal's judgment is confirmed then British Coal will proceed with a phased programme of colliery closures aimed at reducing surplus capacity as soon as possible."

On assistance to the coalfield communities, Mr Heseltine confirmed that the government had prepared a package of measures to help people retrain and find jobs, and that Tecs would have a role to play in this.

He also said that the government would create new enterprise zones to attract new industry and long-term investment, and gave details of other measures.

"On the basis of preliminary discussions with English Estates [about a programme of property and sites provision] the government have decided to make available to the corporation - and in due course to the Urban Regeneration Agency - £75m of additional money over the next three years. In addition the corporation will in this year spend around £10m in these areas."

"The secretary of state for the environment is also making nearly £2m available today to the Tyne and Wear Development Corporation."

"We have already announced that three areas - Doncaster, Barnsley and Mansfield - will get enhanced status when the new assisted area map is announced in the new year. More areas will be upgraded in the review. We will continue to look at other areas."

"I intend to extend the coverage of regional enterprise grants to all coal closure areas. This will help small businesses there with investment and innovation projects. I will strengthen inward investment efforts in these areas. I will see that additional resources are available to local development agencies."

"The secretary of state for the environment is also acting immediately to alleviate the effects of the closures. He is

today setting up a coalfield areas fund. Up to £5m will be made available for expenditure in this financial year and next.

"These measures will all bring new money to the affected areas. We are talking about £165m altogether."

"It will be important to ensure that the programmes mesh properly together, leaving neither wasteful overlaps nor damaging gaps."

"For this reason I have decided to appoint a distinguished national figure, who will be an adviser in my department, to act as co-ordinator and facilitator at the national level."

Backbench appetite appears satisfied

By David Owen

IT SHOULD have been a gentle prelude to the new parliamentary session.

But Mr John Major tucked into salmon pike and lamb with the executive of the backbench 1922 committee yesterday, there must have been times when he felt he was dining with the enemy.

Good-natured and amiable the prime minister's departure may have been after more than two hours at the disposal of the men in grey suits, but Sir Marcus Fox's remark on entering that the Carlton Club lunch was "a social occasion" fooled nobody.

Since its formation at a meeting of Conservative MPs which defied the party leadership by repudiating the coalition with Lloyd George's Liberals, the 1922 has become the most powerful voice of Tory backbench opinion.

Though compliant and supportive when times are good, it has showed time after time that it is not a body that the government can trifle with.

The executive members with whom Mr Major and his right-hand men Lord Wakeham and Mr Richard Ryder lunched with yesterday comprise the most senior and respected of Conservative backbenchers.

With a weak, seemingly directionless government handstanding a Commons majority of just 21, the power of the committee under Sir Marcus - its wily and publicity-conscious chairman - has seldom been greater.

The 1922's rebelliousness should not be overstated, however. Yesterday, Sir Marcus himself was rebuked by colleagues in front of the prime minister for his outspoken criticism of the handling of the coal issue.

So the chances are that the committee's grandees will this week content themselves with having demonstrated that they have the government on a tight leash by helping to persuade Mr Major to slow down the pace of the proposed shutdowns.

Certainly, the mood was relaxed enough as yesterday's lunch broke up. "The members of the executive were very happy with what the prime minister had to say," said one of the lunchers. Lord Wakeham beamed. Sir George Gardner, MP for Reigate, simply flashed a thumbs-up sign.



MINERS at Silverhill Colliery in Nottinghamshire arrived for the early shift yesterday only to be told that if they went to work they could be risking redundancy payments.

The pit's deputy manager, Mr Peter Hewes, said he was seeking clarification from British Coal on Silverhill's position.

Mr Roy Lynk, president of the Union of

Democratic Mineworkers, who has spent four days and nights 1,200ft underground at Silverhill, was last night continuing his protest sit-in.

Mr Lynk said of Mr Michael Heseltine's statement yesterday: "He is just trying to buy a bit of time. He has treated the British public, the houses of parliament and the miners with contempt."

Cabinet prays with tied hands

MR John Major has retreated. He had no other choice. When the prime minister met with his senior colleagues on Sunday evening the analysis they received from Mr Richard Ryder, chief whip, was as unequivocal as it was gloomy.

With the rebellion on the Conservative backbenches swelling by the hour, Mr Ryder stated bluntly that unless the government swerved it faced certain defeat.

A dozen backbenchers had stated publicly that they would vote against the pit closure programme. More importantly, scores of others were threatening privately to do the same. Mr Major faced the prospect not of a narrow defeat, but of a rout from which his government would never recover. The emergency cabinet meeting yesterday morning knew it had no option but to recognise that reality.

Now the government must pray that the new package works. The signs last night were that Mr Michael Heseltine, self-styled president of the board of trade, may have to go further still to satisfy the disquiet on the Conservative backbenches. Many want the independent enquiry demanded by Labour rather than a phasing in of closures.

But either way the government is severely damaged. Last month Mr Major's economic strategy was tossed aside by the speculators on currency markets. With it went much of the prime minister's authority in the country and on his own backbenches. The climbdown over coal is a potent reminder of how difficult that authority will be to claw back. It may be impossible. The Tory party at Westminster will no longer take Mr Major on trust.

Mr Heseltine is staying on. Downing Street indicated that there had been no question of resignation even being discussed. After all if Mr Norman Lamont could survive the biggest U-turn in economic policy since the late 1960s, Mr Heseltine could hardly be sacked for a medium-sized swerve.

But the Prezza, as he now likes to be known, will find it hard to restore his reputation - impossible perhaps if he has to give still more ground in tomorrow's debate.

Three factors ensured the defeat over coal. All three promise further trouble as government seeks in coming weeks to push through draconian cuts in public spending and ratification by the Commons of the Maastricht treaty.

The most important was genuine horror among Tory MPs at the scale and speed of the proposed pit closures. The decision - and the apparently arbitrary way that it was taken - reinforced the view that the Whitehall cocoon had left ministers hopelessly out of touch with the mood of the country.

The fate of 30,000 miners replaced Europe as the lightning conductor for all the discontent over the economy which has bubbled beneath the surface since sterling's exit from the European exchange rate mechanism.

Tory MPs who have been promising their constituents economic recovery for nearly two years are finding the excuses wearing thin.

The second factor is linked. The vacuum in policy left by the ERM debacle alongside the fall in the government's majority to 21 at the April general election has tilted the power balance at Westminster. In the 1980s the government's majority was more than 100, leaving backbench Tory MPs as simply fodder for the government machine. Now they have real power they intend to use it.

But the third reason for the government's defeat at the hands of its own supporters has nothing to do with coal. For one sizeable group of Tory MPs - the Eurosceptics - the furor over the pit closures was simply an opportunity to weaken the prime minister.

The cabinet wants to bring back the Maastricht bill to the House of Commons next month. The Eurosceptics judge that anything that can be done to damage Mr Major before then will reinforce their campaign against ratification.

Mr Major can claim justly that the arguments of many even among those with much purer motives are riddled with contradictions. No one has argued harder for cuts in public spending than those members of the 1922 committee who have most loudly condemned the pit closures.

But the prime minister can take little consolation from the inconsistencies. A party manager par excellence, he now presides over a party which threatens to become unmanageable. One minister was driven to comment yesterday that the rebels and the irresolvable must simply be told to make up their minds whether they want Conservative government.

The problem is he could not be sure of the answer.

Philip Stephens

Labour says plan only postponed

By Ivo Owen, Parliamentary Correspondent

LABOUR MPs accused the government last night of postponing instead of abandoning the proposals for the closure of 31 pits, and stepped up their demands for an independent inquiry to establish the facts about the collieries' viability.

Mr Robin Cook, shadow trade and industry secretary, called on dissident Tory MPs to recognise the limited nature of the concession offered by Mr Michael Heseltine, trade and industry secretary, and to back a Labour motion advocating an independent inquiry in the vote due to take place tomorrow night.

The motion demands that no closures take place "until the select committee on trade and industry concludes a review of the costs and benefits of closing the pits and the comparative costs and benefits to the nation of retaining them in production".

To a roar of approval from the Labour benches, Mr Cook challenged Mr Heseltine to demonstrate his confidence in the case for proceeding with the closure proposals by submitting them to independent judgment.

Labour fears that most of the 31 pits still face closure were heightened when Mr Heseltine,

subjected to a sustained assault from the opposition benches, indicated that any change of policy was likely to be "at the margin".

Mr Mark Fisher, Labour MP for Stoke-on-Trent Central, stressed that Mr Heseltine had announced not a new policy, but "slow death by delay".

Resisting the demands for an independent inquiry, the trade and industry secretary argued that it would be unable to produce an agreement because the different "vested interests" in the energy industry would hold to their stated positions.

A warning by Harrow East Conservative MP Mr Hugh Dykes that without the promise of a more fundamental review of policy the government was likely to be defeated in tomorrow's vote appeared to make little impact on Mr Heseltine.

He questioned whether his Tory backbench critics really wanted to see public expenditure increased to keep open "uneconomic pits against the advice of those who manage those pits".

He emphasised that any extra spending resulting from prolonging the life of uneconomic pits would have to be "taken against a whole range of other investment or revenue consequences: hospitals, schools, roads".

Pits U-turn does little to relieve the economic gloom

By Peter Norman, Economics Editor

THE GOVERNMENT'S partial U-turn over pit closures yesterday did little to lift the pall of economic gloom that has descended on Britain since sterling left the European exchange rate mechanism on Black Wednesday.

The news gave a slight boost to sterling and UK equities, which rebounded from earlier lows, but this latest evidence of a lack of clear direction in economic policy-making left City commentators unimpressed.

Although only 10 pits now face immediate closure, economists still expect well over 100,000 jobs to be lost across a wide range of activities by the end of the year. Fears that the UK recession might give way to a depression were not banished by yesterday's adoption of a "phased programme" to reduce surplus capacity in the coal industry or Friday's surprise cut of 1 percentage point in bank base rates to 8 per cent.

The events of the past few days

have come on top of steep falls in consumer and business confidence. Mr Alan Hyde, a researcher at Gallup, said yesterday that the latest findings on consumer confidence were the gloomiest the market research organisation had recorded since 1979.

Gallup's latest poll, taken before the coal crisis broke and published last week, found that more than half of Britons expect the overall economic situation to deteriorate over the next 12 months while only one sixth expect an improvement.

Surveys by regional chambers of commerce also point to a sharp deterioration in confidence among businessmen last month. The London Chamber of Commerce reported yesterday that hopes of business growth had been "dashed" by falling activity. The Leeds chamber said last week that business confidence had "fallen through the floor". This grim picture is expected to be replicated over the whole of the UK on Thursday when the British Chambers of Commerce publishes its quarterly survey of business opinion, covering the period

between September 7 and September 25.

Mr Richard Brown, BCC director of policy, said yesterday that people in business had been "bedevilled" by the absence of a clear economic policy. The various speeches and statements from the government since Black Wednesday had produced "no inclination to invest".

The coal crisis could only have added to the uncertainty, he said. But according to Mr Michael Saunders, UK economist of Salomon Brothers, "loss of confidence is only

weaker tax revenues and increased spending on social security sparked by the economic slowdown."

Mr Andrew Glyn, an Oxford University economist, believes that the shutdown of 31 mines under the government's plans of last week would have added £1.4bn to this year's PSBR, with roughly £600m added to the figure in the following year. Mr Glyn arrived at these figures by considering compensation payments for miners who would have lost their jobs. He added bene-

fits for workers who would have become unemployed in other industries affected by the pit closures, and tax revenues foregone as a result of lower economic activity in the regions affected.

After yesterday's announcement, the immediate effect will be to reduce substantially the £830m which British Coal had set aside for compensation payments to the 30,000 miners who would have been affected by last week's closure programme.

Part of the story? Even if confidence were strong, monetary conditions would still be too tight for the economy to take off. The cut in base rates still leaves real short-term interest rates at 4 per cent.

"Against a background of declining personal wealth and the highest male jobless rate since the 1930s, 4 per cent real interest rates are too high to promote much growth," said Mr Saunders. "The last time that growth of wages, manufactured goods prices, broad money and credit recorded their current weak-

ness was in the 1960s. At that time, 8 per cent interest rates were considered penal."

Professor Douglas McWilliams, the Confederation of British Industry's chief economic adviser, said it was too early to say that the UK was in a slump. "A slump would mean no recovery for another two years," he said yesterday.

But Prof McWilliams believes the economic outlook is "very tough". Business is "likely to get worse before it gets better" while unemployment could rise to about 3.5m

from 2.86m at present. The CBI will produce its next quarterly survey of industrial trends next week, although this, like Thursday's BCC survey, will be based on information

Prof McWilliams said the coal crisis was likely to have had a negative impact on business confidence similar to that of Black Wednesday. "I have never seen an industrial reaction on the scale of that over the coal closures," he said. "That points to a lack of confidence in the government and more generally in the economy."

However, Mr Peter Spencer, chief economist of Kleinwort Benson, sees a silver lining for the economy in the sharp fall of sterling since Black Wednesday, which should make it easier for exporters to sell goods abroad.

He said that in spite of poorer economic prospects in the US and continental European economies, British manufacturers should be able to take market share from competitors in Germany and France. "The irony is that industry made

great efforts to get its costs under control in the ERM - that is what the present wave of redundancies is all about," Mr Spencer explained. "Industry learned to live with the high value of the pound by the time the UK left the ERM. The devaluation gives UK companies a windfall opportunity."

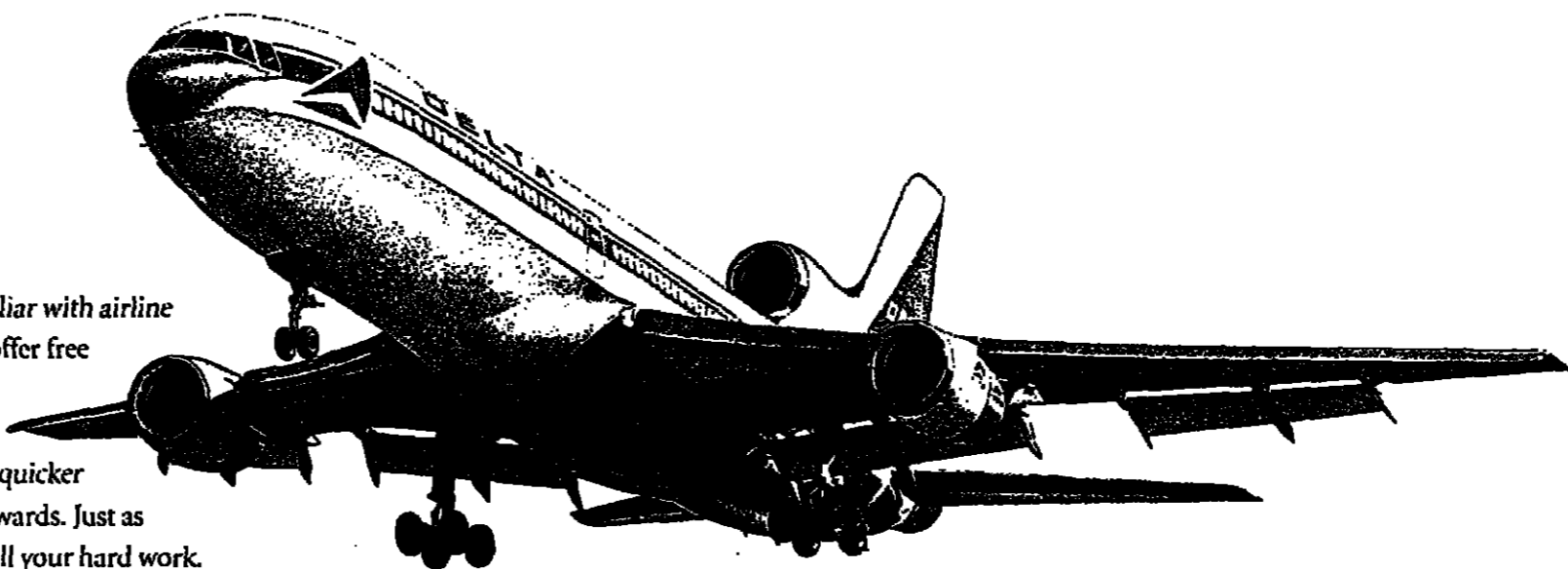
However, Mr Spencer warned that it would take some time before these benefits would be felt. Yesterday's partial reversal of the pit closures would do nothing to strengthen confidence in the short term in either the consumer or business sectors, he said.

Indeed, uncertainty about future policies and exchange rates may be deterring UK companies from taking advantage of the devalued pound. Mr Brown of BCC said exporters seemed not to be exploiting sterling's more competitive level.

From his vantage point at the CBI, Prof McWilliams was more hopeful. Anecdotal evidence suggested that some of Britain's large companies were now more active in export markets, he said.

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NEWS: UK

UK group wins \$100m order from Chrysler

By Andrew Baxter

PERKINS GROUP, the Peterborough-based diesel engine manufacturer, has won a big order from Chrysler of the US for high-technology "green" engines to power a new range of Mexican-built Dodge trucks.

The order will be worth \$100m for Perkins over the next five years, and is its first contract with one of the big three US motor companies since the North American Free Trade Agreement (Nafta), recently initiated by President George Bush and his Mexican and Canadian counterparts.

The deal, won against tough international competition, comes nine months after Perkins won a \$1bn ten-year contract to supply engines to Caterpillar, the US construction equipment group.

Mr Tony Gilroy, Perkins Group managing director, said the Chrysler order came against the backdrop of a fairly depressed UK market and "not very buoyant world markets". It would bolster the group's ability to maintain employment at Peterborough, where the workforce has fallen by 10 per cent to 3,000 during the current recession.

Mexico has been a big market for Perkins for many years, but has assumed new strategic importance because of Nafta, Mr Gilroy said.

Although the initial engines for the Dodge contract will be supplied from Peterborough, assembly will soon be transferred to Mopasa, a Perkins associate company based at Toluca in Mexico. Eventually, Mexico could be used to source key engine components.

Mr Gilroy said the order was "yet another significant expression of confidence from a leading internationally known automobile customer in our ability to meet increasingly stringent environmental and performance standards".

The new Phaser engines being supplied to Chrysler are six-cylinder turbocharged units which meet US federal emission standards comfortably. The engines also suit demand in Mexico for low-pollution trucks.

Low-emission diesels are a focus of the industry's efforts as it grapples with increasingly demanding emission regulations. Perkins' Phaser family is designed so that, with modification, it can meet the forthcoming US 1994 and European Community 1995 emission regulations.

Whodunnit in case of missing £30m

By Maggie Urry

DOCUMENTS potentially worth more than £30m disappeared from a Birmingham stockbroker's office on Friday and nobody knows if they were stolen or accidentally put out with the rubbish.

The missing papers were letters of allotment destined for investors who bought shares in the £51.7m flotation of Trinity Holdings, which - ironically - builds chassis for dustcarts as well as Dennis fire engines and buses.

The few hundred letters, which covered 25m shares, were delivered by a security company to the office of stockbroker Albert E Sharp early on Friday morning. Although someone signed for them, the box was not there when executives looked for it later.

Such letters can normally be used to deal in shares until formal share certificates are printed.

However, anyone attempting to deal in white letters of allotment will be caught redhanded.

When their absence was discovered, Sharp and Baring Brothers, Trinity's merchant bank, arranged for new letters to be printed on green, rather than white, paper. It has yet to be decided who will pay for the second print run. These were posted on Saturday and dealings commenced yesterday as planned with the shares closing at 129p, a comfortable premium to the 120p issue price.

Negotiations begin on more liberal UK-US aviation deal 'Open skies' talks start today

By Paul Betts, Aerospace Correspondent

THE UK and the US are to begin a new round of talks in London today in an effort to negotiate a more liberal aviation agreement between the two countries to clear the way for British Airways' proposed \$750m investment in a 44 per cent stake in USAir.

The UK last week tabled a set of proposals to liberalise gradually air services between the two countries. But it has insisted that any new bilateral deal would hinge on the US government first approving the BA-USAir transaction.

The US has come under pressure from the three largest US carriers - American Airlines, United Airlines and Delta Air Lines - not to approve the BA deal unless they are granted greater access into the UK. They also want the US govern-

ment to secure a new "open skies" agreement with the UK before granting approval for the BA acquisition of a large minority stake in USAir.

US airline officials suggested yesterday the US government was apparently prepared to agree to some phasing in of open skies between the two countries as the UK has proposed. But it wants firm commitments and a timetable for liberalisation. Airline industry analysts believe a third round of talks will probably be necessary before an agreement can be reached. One US airline official said he did not think there would be any agreement before the US election.

The US is also understood to be seeking some modification in the current BA-USAir agreement because it says that the present structure of the deal would give BA virtual control of the sixth largest US carrier.

BA, however, denies this argument that its deal complies with existing US regulations. BA is proposing to acquire 44 per cent of USAir shares and 21 per cent of the airline's voting rights. Foreign ownership of airlines is limited to 25 per cent of voting rights in the US. The big three US carriers said they would not object to the BA transaction if they could compete on the same basis against BA. They also said they were urging their government to negotiate for immediate and total liberalisation rather than a phased introduction of open skies.

The UK has proposed a three-step approach: immediate liberalisation of US services to UK regional airports; next the liberalisation of services to London when the US relaxes its existing foreign ownership rules; and finally complete liberalisation.

Britain in brief



Europe debate 'soon' says government

The debate paving the way for the return of the Maastricht bill to the Commons will be "very soon", ministers indicated yesterday. It will therefore be possible to bring the bill back before MPs in the middle of next month.

Discussion of the Maastricht treaty at last week's cabinet meeting came down on balance in favour of pressing ahead with the legislation. The Foreign Office is keen to proceed on the basis that continued delay is debilitating and encourages the Tory rebels.

In his statement to the Commons today on the Birmingham European Community summit, Mr John Major, prime minister, will re-state his determination to take the legislation through parliament. Government business managers will not commit themselves firmly to any particular timetable until they see how the paving debate goes.

Women's pay

British women in banking and finance earn 53 per cent of men's earnings in the same sector in an average month, according to figures from the Equal Opportunities Commission. That is a lower percentage than women receive in eight other EC countries. The figures also show Britain is second from the bottom of a league of 11 countries for average female manual industrial earnings as a proportion of men's earnings per hour. Only Luxembourg is lower.

Safety costs

The construction industry faces extra costs of £550m a year to comply with European legislation which will make clients and architects jointly responsible with contractors for building site safety for the

first time in UK law, said the Health and Safety Commission.

Outlook in north worsens

A steep drop in orders, a fall in home and export sales, plunging confidence and pessimism about prospects are highlighted in the latest Business Survey North of businesses in Cumbria and north-east England. The survey, a stark contrast to previous upbeat predictions that northern England might lead the country out of recession, says the northern economy took a pounding in the third quarter.

Administrators appointed

Mount Banking Corporation has been put into administration rather than liquidation following a High Court ruling. The move will allow faster repayments to depositors and increase the chances of the company's survival as a going concern. Administrators will be former provisional liquidators, KPMG Peat Marwick.

Halifax rate

Halifax, the largest UK mortgage lender, cut its standard mortgage interest rate from 9.99 per cent to 9.29 per cent in the wake of last Friday's one percentage point fall in the banks' base rate.

Red-route plan

The recently-appointed Traffic Director for London, Mr Derek Turner, published draft plans for a 315-mile network of red routes in the capital, roads where parking regulations are being revamped to speed up traffic. The network is due to come into operation in 1997.

Fairshares Plus

Saturday's Minding Your Own Business page gave an out-of-date number and address for JSL Software, the supplier of Fairshares Plus. The correct address is 5 West Street, Epsom, Surrey, KT18 7RL. The telephone number is 0372-741989.

Doubts hit UK as European base

By Michael Cassell, Business Correspondent

A NUMBER of international companies are no longer considering locating their headquarters in Britain because of uncertainties over its role in Europe, according to a report published yesterday.

The study by Ernst & Young, international business advisers, and Corporate Location magazine, says UK success in attracting companies wanting a foothold in the European Community is under threat. Its conclusions follow a

recent warning from Mr Michael Heseltine, trade and industry secretary, that Britain could lose its position as a favourite location for inward investors into the EC unless it appeared to an enthusiastic supporter of the Community.

Mr David Rees, director of Ernst & Young's European location advisory service, said that by "tending to be on the sidelines" of the European debate, the UK risked presenting the wrong image to international companies.

He said some companies were no longer interested in

acquiring UK base as it would create "the wrong impression about their European credentials. If this uncertainty continues, then the UK's considerable past successes in attracting a third of all US and Japanese investment in Europe may be a lot harder to sustain." The report emphasises that the UK remains an attractive location, in spite of strong competition. It is highly rated for its telecommunications links, its good supply of labour with reasonable skill levels and good physical communications.



Rover launches 'Italian Job' Mini

The Italian Job, three examples of which are pictured above, is yet another limited edition of the Mini, to be launched at the Birmingham motor show today, writes John Griffiths.

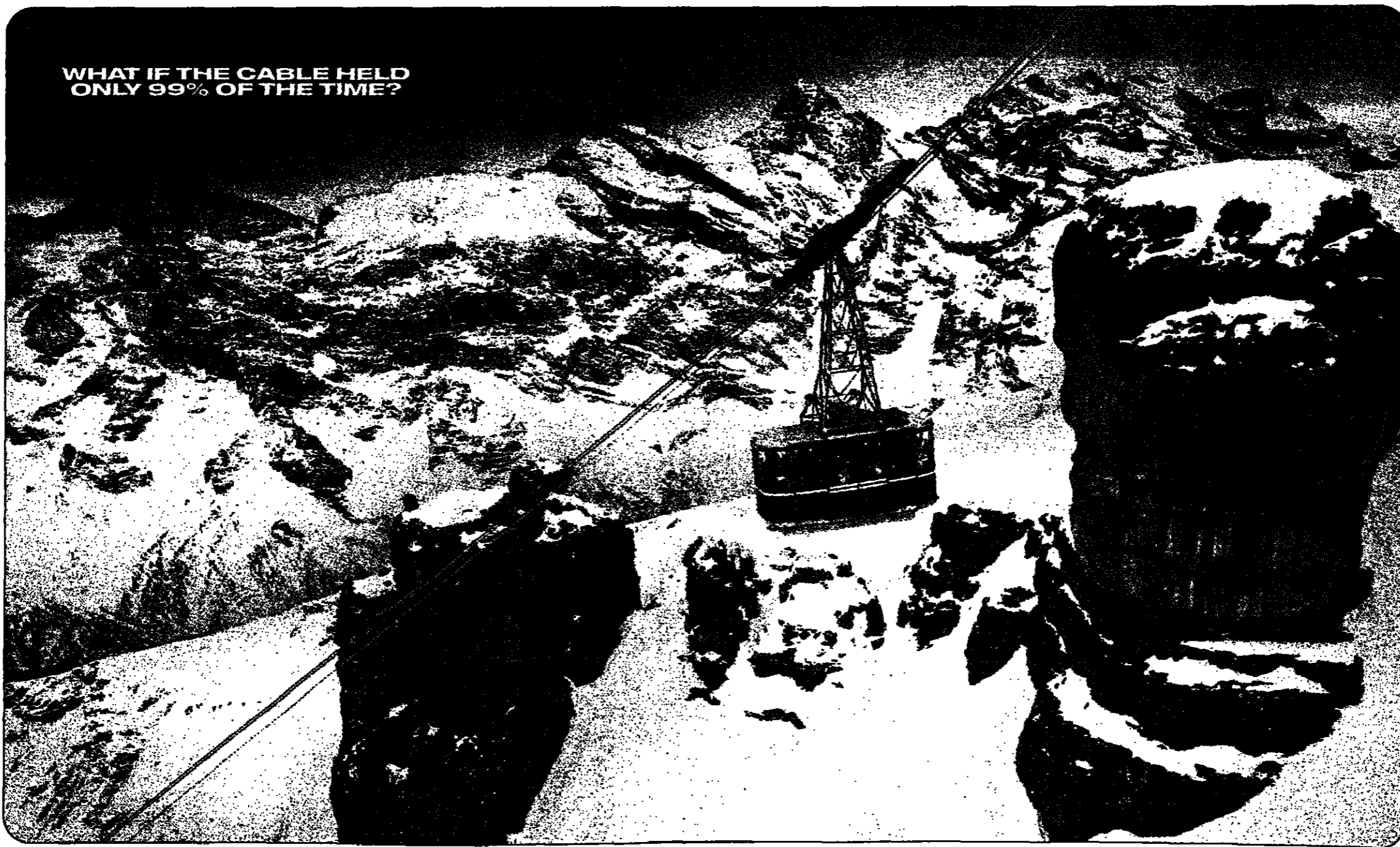
The car, named after the 1969 film in which three Minis featured in a gold bullion robbery, is an attempt by Rover to capitalise on the recent resurgence in popularity of the 33-year-old vehicle.

Film critics at the time suggested that the Minis, whose antics included jumping between rooftops, upstaged human stars Michael Caine and Noel Coward.

The versions about to go on sale look like the Mini Coopers used in the film but have standard 1.3 litre engines. Production of the 25,995 cars will be limited to 1,000 for the UK and 750 for Italy.

Meanwhile, Rover is preparing to put a more upmarket, convertible version of the Mini into commercial production at its Longbridge plant near Birmingham.

The car will go on sale early next year at the same time as a convertible version of the larger Metro. The Mini Cabrio was first seen early last year as a £12,000 limited production model built by a German conversion specialist. Rover has yet to put a price on the full production version.



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AUCTIONS

AUCTION NEWS. The National Weekly Guide to Industrial & Commercial Auctions, Liquidations, Receiverships, Government Surplus, etc. Established 1958. Details from Auction News Services. Tel: 0332-551300 Fax: 553608.

LEGAL NOTICE

Notice of Appointment of Administrative Receiver. MOORE & LLOYD. Registered No. 1799300. Trade classification: 01. Name and address of joint administrators: Messrs D J Stokes and M J Moore, Cork Gully, 1 St. Peter's, St. Peter's, 81 2ET. Office holder numbers 3682 and 3683. Date of appointment: 12 October 1992. Name of appointing bank: Yorkshire Bank plc. Signed D J Stokes. Date: 12 October 1992.

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The assets include the right to three partially completed feature length animated films including the classic story of "Thumbelina" with music and songs by Barry Manilow. Two of the films are scheduled for release in 1993. Other films are at early stages of production.

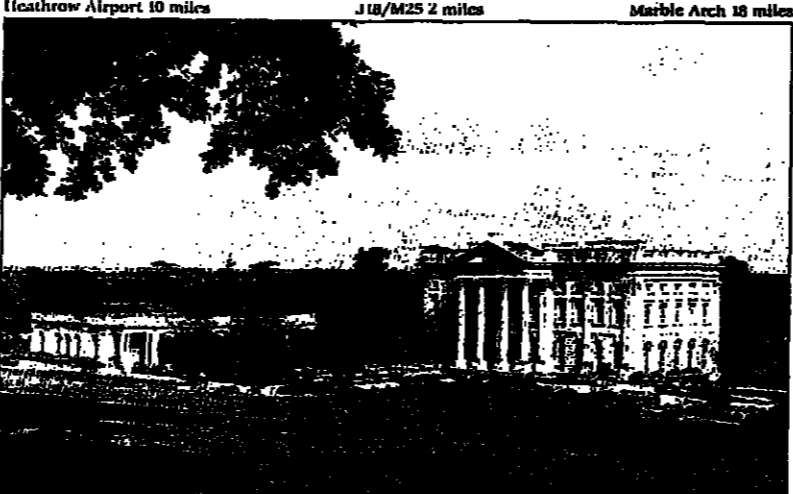
The company operates from a state of the art studio in Dublin, Ireland, with an experienced, highly skilled and trained workforce. For further information contact the Provisional Liquidator, John McStay at Ernst & Young, Ernst & Young Building, Harcourt Centre, Harcourt Street, Dublin 2, Ireland. Telephone: 353-1-750555 or Facsimile: 353-1-750599.

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For further information, contact the Joint Administrative Receiver of FW Buzz Bars Ltd., John Wheatley, KPMG Peat Marwick, Peat House, 2 Cornwall Street, Birmingham B3 2DL. Tel: 021 233 1666. Fax: 021 233 4390.

KPMG Corporate Recovery

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The Joint Administrative Receivers, Robert Bailey and Stephen J Taylor, offer for sale the business and assets of this toy and greeting card retailer.

- Principal features of the business include:
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 - retail area of approximately 3,800 square feet
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 - currently a Hollmark identified shop.

For further information please contact Robin M Dillamore at Cork Gully, Abacus House, 32 Prior Lane, Leicester LE1 5RA. Tel: 0533 622338. Fax: 0533 536929.

Cork Gully is authorised in the state of Cyprus & England by the Institute of Chartered Accountants in England and Wales to carry on investment business.

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COMPANIES DESCRIPTION

1. **FINANCIAL MINING INDUSTRIAL AND SHIPPING CORPORATION** (or "FIMISCO S.A.") registered at 18-20, Silefias Str., Athens, Greece.

It is one of the biggest mining concerns in Greece, engaging itself in the exploitation of magnesite ore mines and the manufacture of refractory products. It also has chromite ore concessions with ore suitable for both metallurgical and refractory usage. Its main processing facilities and the majority of its concessions are concentrated at Mantoudi on the Euboea Island, 150km south from the city of Athens. FIMISCO's facilities include pre-concentration and concentration plants, four (4) rotary kilns for slaking the magnesite ore and produce chromite and dead-burned magnesite, one (1) flotation plant for the production of "MAGFLOT", one (1) refractory plant, a loading bridge, silos to store raw material and finished goods, a chemistry lab equipped with "x" ray analyzer and a ready mix plant. Mining is conducted mainly at the Panakrorema, Gerorima and Kakavos mines located near Mantoudi. The company possesses adequate loaders, drills and pumps to support its operations. FIMISCO ceased operating in July '92 and currently employs about 100 people, mainly seasonal staff.

2. **MACEDONIAN MAGNESITE MINING INDUSTRIAL & SHIPPING S.A.** (or "MAC-MAG") registered at 18-20, Silefias Str., Athens, Greece.

It also exploits magnesite ore deposits and produces chromite and dead-burned magnesite. Its mining activities take place at Ormylia in Chalkidiki where it also located the company's concentration plant. MAC-MAG has two (2) rotary kilns for slaking the ore at Mantoudi and silos for storage. The bulk of the ore excavated from the Ormylia mine, is fed to FIMISCO's flotation plant for the production of MAGFLOT. The company ceased operating in early '92 and currently employs only eight (8) people mainly security staff.

TERMS OF THE AUCTION

1. The Public Auctions as well as the whole procedure of sale of the Total Assets of the two above-mentioned companies will take place pursuant to Article 46a of L. 1892/90 as amended by Article 14 of L. 2000/91, the terms of this proclamation and the terms contained in the "Form of Bid".

2. Investors interested in the purchase of the Total Assets of the companies are asked to submit written Bidding Offers in a sealed, non-transparent envelope by Wednesday November 11, 1992 at 18:00 p.m., at the office of the Pioneer Notary Public, Mrs. Zafiria Sotiropoulou, 78 Kolokotroni Str., Tel. (01)-4134.021 or 4129.686. Interested investors must submit a Bidding Offer for the Total Assets either of both companies or one of them. The submission of Bidding Offers should be done personally or by a duly authorized representative. Overdue Bidding Offers will not be accepted.

3. The Bidding Offers should refer to the Total Assets of the companies as set forth in the Balance Sheets of 31.12.92 with the following notations:

- a. All real estate, buildings, machinery, mines, concessions, inventory, means of transportation and equipment in general will be sold on an "as is" basis on the date of the Public Auction.
- b. The Total Assets to be sold do not include cash and marketable securities in hand. They do not also include receivables collected by the date of the Public Auction. Finally, they do not include receivables transferred to third parties or pledged in favour of third parties.

4. Each interested investor shall, before the submission of his Bidding Offer, at his own risk verify the condition of the Total Assets to be sold. Each Bidding Offer should refer to the results of such verification. The Liquidator, the creditors and the shareholders are not liable for any discrepancies between the balance sheet of 31.12.92 and the verification by the investors.

5. Bidding Offers for the purchase of the Total Assets of FIMISCO S.A. must be accompanied by a Letter of Guarantee in the amount of two hundred and fifty million drachmas (250,000,000). Bidding Offers for the purchase of the Total Assets of MAC-MAG must be accompanied by a Letter of Guarantee in the amount of one hundred and fifty million drachmas (150,000,000). Bidding Offers for the purchase of both companies must be accompanied by a Letter of Guarantee in the amount of three hundred and fifty million drachmas (350,000,000).

Letters of Guarantee must be issued by a credit worthy bank legally operating in Greece, pursuant to the form contained in the Form of Bid and must be contained in the same envelope with the Bidding Offer. The Letters of Guarantee must be valid until the written acceptance of a Bidding Offer but in any event no later than 31.3.93. After the adjudication, the Letters of Guarantee will be returned to all other participants except the successful bidder. In the event of breach of any term of the Public Auction or the Bidding Offer by any successful bidder, the Letter of Guarantee will be used as penalty in favour of the Liquidator. The successful bidder waives his right to ask the reduction or the amendment of this penalty. It is implied that in the event the Public Auction is repeated, all Letters of Guarantee will be returned. Bidding Offers not accompanied by Letter of Guarantee will not be accepted.

6. The Bidding Offers will be opened by the above-mentioned Notary Public, at her office on Friday, November 13, 1992 at noon. Apart from the Liquidator and the representative of the Industrial Reconstruction Organisation (or "IRO"), all persons having submitted a Bidding Offer are entitled to be present during the opening of the Bidding Offers.

7. Pursuant to L. 2000/91, successful bidder will be declared the successful bidder whose Bidding Offer will be judged by the Liquidator and approved by at least 51% of the creditors of each company, as the most profitable in their absolute discretion.

8. The Liquidator with the consent of 51% of the creditors of the companies will request in writing the successful bidder to appear and the successful bidder is obliged to appear to the above-mentioned Notary Public, at the time and date set forth in the request, to sign the "Assets Transfer Agreement" pursuant to the terms of the Bidding Offer and any other terms requested by the creditors of the companies and accepted by the successful bidder. The above-mentioned agreement constituted adjudication of the purchase of the Total Assets.

9. All costs in connection with the participation in the Public Auction will be borne exclusively by the interested investors, who are not entitled to any indemnification in the event their Bidding Offer is not accepted. Furthermore, costs associated with the transfer of the Total Assets (taxes, stamp duties, advisors' and notaries' fees, etc.) will be borne exclusively by the successful bidder.

10. The Liquidator, the creditors and the shareholders of the companies are not liable for any legal or real defects of the Total Assets or any litigation in connection with the procedure of L. 1834/83 and L. 2000/91. Furthermore, the Liquidator, the creditors and the shareholders of the companies are not liable to the participants in the Public Auction with respect to the appraisal of the Bidding Offers, the selection of the successful bidder and generally any decision relating to the procedure to be followed. The participants in the Public Auction do not acquire any right or claim from the present proclamation and their participation against the Liquidator, the creditors and the shareholders of the companies.

11. The present proclamation has been executed in both the Greek and the English languages. In case of disagreement between the two texts, the Greek text prevails.

For additional information and in order to obtain The Form of Bid, interested investors should contact the Special Liquidator, Alpha Finance, 5 Merina Str., Athens 106 71, GREECE.

Tel. (01)-3646.186/3646.198. Fax: (01)-3646.840.

North West Growers Ltd. and Marathon Fresh Foods Ltd.

The Joint Administrative Receivers offer for sale, as going concerns, the businesses and assets of North West Growers Ltd. and Marathon Fresh Foods Ltd.

Both companies are based in Banks, Southport, Lancashire. North West Growers Ltd. was established in 1970 and its principal activity is market gardening. Marathon Fresh Foods Limited, incorporated in 1989, is involved in fresh produce merchandising.

- Principal features include:
- Freehold premises, including approximately 14 acres under computer controlled heated glasshouse environments.
 - Plant, machinery and motor vehicles.
 - Stock in trade.
 - Experienced and skilled management and workforce.
 - Annual combined turnover of approximately £3m (£1.8m attributable to North West Growers Ltd.).

For further information, contact the Joint Administrative Receiver, Mike Seery, KPMG Peat Marwick, Edward VII Quay, Navigation Way, Ashton-on-Ribble, Preston, Lancashire, PR2 2YF. Tel: 0772 722822. Fax: 0772 736777.

KPMG Corporate Recovery

BUSINESS FOR SALE

Tefcote International Ltd. Tefcote (UK) Ltd. Hygienico Ltd.

The Joint Administrative Receivers offer for sale as a going concern the business and assets of the above companies. These companies are engaged in the marketing and supply of a reinforced surface coating known as the Tefcote System incorporating Tefcote HRX.

Principal features include:

- The Tefcote System, a complete surface system incorporating a water based coating containing PTFE and a reinforcing matrix.
- Tefcote HRX, a bactericidal product which controls bacteria moulds and fungi.
- Other valuable interests in patents and further applications of HRX.

For further information contact the Joint Administrative Receiver, John Dare, KPMG Peat Marwick, 1st Floor, Dukes Keep, Marsh Lane, Southampton SO1 1EX. Tel: 0703 631465. Fax: 0703 223547.

KPMG Corporate Recovery

TEXTILE PRINTING AND EMBROIDERY

Top Fashion Designs Limited

The Joint Administrative Receivers, A Robertson and R M Addy, offer for sale as a going concern, the business and assets of this well established Hertfordshire based company which offers a screen printing and embroidery service to manufacturers in the clothing industry.

Principal features of the business include:

- £2 million turnover
- very strong customer base
- in-house experienced design studio
- modern well maintained plant and machinery
- full promotional clothing service
- long leasehold property in Leitchworth.

For further details please contact Amanda Robertson or Paul Walker at Cork Gully, Mount Pleasant House, Huntingdon Road, Cambridge CB3 0BL. Telephone: 0223 313611. Fax: 0223 462111.

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Cork Gully

THE ELECTRIC CINEMA

Portobello Road, W11

"The Electric" is a highly renowned cinema which over the decades has been at the forefront of showing arts and niche market films. The business is now offered for sale as a going concern.

- One of the earliest surviving examples of a purpose built cinema
- Freehold constructed in 1902 and now Grade II listed
- Recently internally restored to a very high standard
- Highly valued and respected by film experts and the local community
- Active club membership

For further details contact the Joint Administrative Receiver: Maurice C Withall, Grant Thornton, Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. Tel: 071 383 5100. Fax: 071 383 4715/4077.

Grant Thornton

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Electric Windings (London) Ltd.

(Business and assets for sale)

The Joint Administrative Receivers offer for sale the business and assets of Electric Windings (London) Limited.

The principal features include:

- Designers and manufacturers of electric windings, coils and transformers, specialising in the automotive, transport, building and defence industries.

• Turnover approximately £3.6 million per annum.

• Established customer base.

• Plant, machinery and stocks available.

• Operating from leasehold premises in Romford and Inverval premises in Epsom, Essex.

For further details please contact: C J Hill, Grant Thornton, Compass House, 80 Newmarket Road, Cambridge CB5 8JZ. Tel: 0223 461200. Fax: 0223 461209.

ERNST & YOUNG
Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

CONTRACT CLEANERS

- Turnover £125k
- Contracts around central and south west London
- Low overhead base
- Could support new proprietor or grow existing contractor's turnover

Contact Fax 071 831 0439 FAX SMS

Electrical Contractor

Halifax

The business and assets of W Warburton & Co Ltd (in receivership) are offered for sale as a going concern.

- Freehold property
- Annual turnover approximately £1.4m
- Long standing reputation for high quality work
- Substantial customer base

For further details contact the Joint Administrative Receiver: Mike Saville or Geoff Gee, Grant Thornton, Eldon Lodge, Eldon Place, Bradford, West Yorkshire BD1 3AP. Tel: 0274 734341. Fax: 0274 390177.

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Dartmouth 3 1/4 miles. The Sea 1 mile

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13 self-contained fully furnished cottages equipped to a high standard

5 bedroom farmhouse

Leisure complex with heated indoor pool and other facilities

Planning Permission for 2 extra cottages

Established proven business with high turnover

Offers invited in the region of £800,000

Freehold for sale as a going concern

Joint Agents

Waycotts, Torquay (0803) 212531 (M/L/112267)

ENETER 0392 433033 Knight Frank & Rutley 19 Southernhay East Exeter EX1 1QD

Smith & Williamson

Corporate Recovery • Litigation Support • Corporate Finance • Taxation • Banking • Insurance • Investment Management • Finance & Life Assurance • Accounting • Auditing

The Law and Property Act Receivers of Allister Greig's Grill offer for sale the business and assets of this well established restaurant



Opened in 1978 at a prestigious West End location and with an excellent reputation. It comprises:

- Turnover circa 1,600,000.
- Ground floor dining area with 65 covers.
- 10 years remaining on lease.

For further information please contact Michael Oldham or Richard Oischor on 071-637 5377 at the offices of Smith & Williamson, No. 1 Riding House Street, London W1A 3AS. Fax: 071-323 5683.

Smith & Williamson Chartered Accountants Registered to carry on under work and authorised to carry on investment business by the Institute of Chartered Accountants in England and Wales. Smith & Williamson Securities Authorised Institution under Banking Act 1987. Member of DMO, Member of the British Merchant Banking and Securities Houses Association.

Lakeland Sheepskin Centre Ltd (In Receivership)

The business and assets of the above quality clothing retailer are offered for sale as a going concern by the Joint Administrative Receivers.

- Retailer of classic country style clothing.
- Operates from 14 leasehold and 2 freehold stores throughout the country.
- All outlets recently refurbished to a very high standard and all contain EPOS management control systems.
- Freehold warehouse and distribution centre totalling over 26,000 square feet in Ambleside, Lake District.
- Turnover exceeds £10 million per annum.
- Workforce of 120 full-time staff and over 140 part-time staff.

Enquiries to: IC Powell FCA, Price Waterhouse, York House, York Street, Manchester M2 4WS. Tel: 061-228 6541. Fax: 061-236 1268.

Price Waterhouse

The U.K. member firm of Grant Thornton International. Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

Manufacturer of Mining Machinery Drilling Rigs & General Engineers

U. M. M. LIMITED

Westfalia Becorit Industrietechnik GmbH offer for sale the Trade, Intellectual Property Rights and Stock of the above subsidiary Company together with that of Hands England Drilling Limited.

The Company has annual sales of £3.5 million per annum to the mining and civil engineering industries.

Also for sale is 100,000 sq. ft. of modern factory space with good craneage together with 37,000 sq. ft. of modern office accommodation, both situated at Newton Aycliffe, Co Durham.

For further details contact:

Eric Lodge, Chief Executive, U.M.M. Limited, Horndale Avenue, NEWTON AYLCLIFFE, Co Durham DL5 6DS. Tel: 0325 312431 Fax: 0325 319627

International U.K. Based Display Contractors FOR SALE

Profitable, high profile company with £1m+ T/O in the museum, events, shopping, showroom, offices & exhibition industries.

Extensive workshop facilities & good order book.

Other allied companies may be available.

Principals only

Reply to Box No. A4548, Financial Times, One Southwark Bridge, London SE1 9HL.

Carl Norris (Motors) Ltd

(In Administrative Receivership)

The Joint Administrative Receivers offer for sale the business and assets of Carl Norris Motors Ltd.

- Long established Motor Dealership
- Superior located mechanical premises near A148/A150
- Specialist Workshop, Paint, Used Car Forecourt

Exclusively available for New Car Finance

For further details please contact John Kelly, Ernst & Young, PO Box 1, 1 Colindale Ave, London NW9 1QH

Telephone: 021-626 6262. Fax: 021-626 6267

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PRIVATE HEATING AND ELECTRICAL COMPANY

BUSINESS FOR SALE (South East England)

- Long established with good reputation
- Large service and maintenance department
- Substantial order book
- Turnover - 12 months to March '92 - £3.1m approx
- Freehold offices and yard

For further information and a prospectus please contact Shirley Foss on: 071-405 2088

KIRSON (SFP) Chartered Accountants Spectrum House, 20-26 Curzon Street, London EC4A 3HY

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500 Acres Top Grade 1 Land, outstanding leisure industry potential.

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Superb location, only 40 mins. drive Dublin - all major Airport connections, 50 mins. flying time to London.

New 6,000 sq.ft. house, also planning for additional 22,000 sq.ft. complex - offers £3,000,000. Serious enquiries only.

Enquiries: Jordan Town & Country Estate Agents. Phone: 010/353/45/33550 Fax: 010/353/45/34122

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Well established West Midlands based business with annual sales of approximately £0.5 million and gross margins of £0.25 million.

Prestigious customer base. Suitable for re-location.

Principals only to apply in confidence on Company

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SUCCESSFUL GROUP

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FIELD SALES PROMOTION COMPANY

Due to retirement this successful, well established and very profitable Company providing leaving FMC Manufacturers/Distributors with high quality field service contract sales representation, merchandising, in-store activity, is for sale.

Interested Principals should write to: Ref. 110M Business Partners International, 63-64 Haymarket London SW1Y 4BT (no call)

WEST GERMANY publishing company directories

The owner offers for sale the business, property and other assets of the company.

Contact Fax +44 71 794 6275

FOR SALE

Retail outlet, Bond Street, selling high class own brand mens/ladies woollen garments and accessories. Established over 100 years with first class brand and reputation. Under management.

For quick sale £25,000 + a.s.v.

Write to Box A4567, Financial Times, One Southwark Bridge, London SE1 9HL

West Germany Manufacturer of Industrial Pumps

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Contact Fax: +44 71 794 6275

FOR SALE

ADULT VIDEO CLUB Profitable business for sale with 1/2 c. £400,000 and active database.

Apply to Box A4446, Financial Times, One Southwark Bridge, London SE1 9HL

HIGH STREET STORE SOUTH EAST COUNTRY TOWN

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Adjacent to leading national multiples. T/O £140,000. GP 35%.

Valuable Lease. PRICE £145,000 + SAV

For further information: Tel. 0248 75416

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• QUALITY SECTOR
• CONTROLLED CIRCULATION
• GOOD CLIENT BASE FOR ADVERTISING
• EXPERIENCED SALES STAFF
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Fire Hoses, Rubber Goods and Mouldings. Turnover DM100m, profitable. The owners offer for sale the business and assets of the company.

Contact Fax: +44 71 794 6275

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Wills Parsons English, Newwest Bank Chambers, Station Road, New Milton, Hants. B125 6JB

FOR SALE

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WEMBLEY

The Joint LPA Receivers of Wembley Sportsmaster Ltd. offer for sale the Company's intellectual property rights, including:

- Internationally Registered Patents and Toy Designs.
- Trade Marks including: Wembley Premier League Striker First Division Sportsplay Trophy Touch Down Confetti Playcraft Sportsmaster Spacehopper Golden Shot

For further information please contact Peter Phillips or Rupert Purser

Buchler Phillips & Co., 84 Grosvenor Street, London W1X 9DF

Telephone 071-493 2550. Facsimile 071-629 9444.

BUCHLER PHILLIPS & CO.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

Alpha Omega (Engineering) Limited (In Receivership)

Livingston, Scotland

This light engineering fabrication factory mainly provides services to the U.K. off-shore oil industry.

- Freehold premises
- Factory c. 19,250 sq. ft.
- Offices c. 5,700 sq. ft.
- Annual turnover c. £500,000
- CNC Plasma Cutting and Punching
- CAD Cam facility

For further details contact the Joint Receiver: Jonathan Birch, Grant Thornton, 1-4 Atholl Crescent, Edinburgh EN3 8LQ.

Tel: 031 229 9181. Fax: 031 229 4560.

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A free seminar to help you minimise costs by maximising your own resources.

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SEMINARS

NEED A MANUFACTURING BASE IN FRANCE? Come to the FREE seminar by Electricité de France at the French Embassy on 28th November

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Contact: Nicole Borne, EDF's Project Manager based in Bristol on (0454) 281688.

Taming an unfriendly beast

Printers are becoming easier to use, write Geof Wheelwright and Louise Kehoe

Ease of use has become the slogan of the personal computer industry. Whether this means pictorial representations of commands on the computer screen, or handwriting recognition that enables control of the computer with a pen, PC hardware and software companies are sparing no effort to make their products more "user friendly".

That is, until these same users try to move their work from the personal computer screen to the computer printer. For years, printers have been the bane of many PC users' working lives. With compatibility problems, multitudes of settings and a lack of standardisation, the printer remains the most complex and frustrating aspect of personal computing.

For those users who have the misfortune to share a laser printer over a computer network, the task is even more daunting - with the prospect of an unfriendly printer holding up the productivity of whole groups of people, rather than just one frustrated individual.

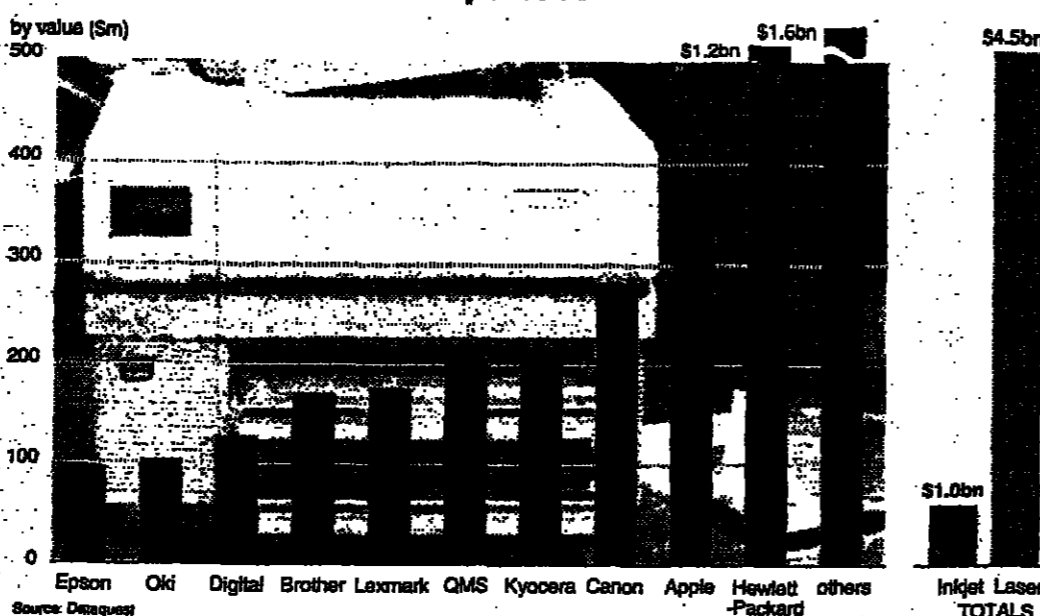
It appears that the makers of laser printers have finally taken this problem to heart. Industry leader Hewlett-Packard is expected to release a new range of faster and easier-to-use "network" printers this month, while PC maker Compaq Computer threw its hat into the ring with a similar range of products a month ago.

HP declined to comment on its forthcoming product announcements, but the new HP LaserJets will feature automatic language and interface switching for mixed computing environments. This means that in an office which uses Apple Macintosh and IBM-compatible PC systems, for example, one user can print to the new LaserJet from a Macintosh at the same time that someone else in the office prints out documents from an IBM-compatible PC. The printer will automatically sort out the queueing of the documents, switching between page control languages and interfaces.

For users with networks, there will be cost and performance benefits. HP's "JetDirect" interface will allow the new LaserJet systems to be installed directly as devices on the network - and therefore will not require a PC to act as a "print server" to the network printer.

It also means that data will be transferred at network connection speeds - much higher than those that can be achieved over a stan-

Laser printer market in Europe 1991



dard parallel or serial port. Thus, although the new LaserJet models print at only eight pages per minute, their ability to take data from the PC to the printer at network speeds will improve response times and overall performance.

HP's latest LaserJets will print at resolutions of up to 600 dots per

inch, double the existing 300 dots per inch standard, and will use smaller "toner" particles so that the resolution may look even higher.

HP is expected to price its new printers aggressively, at between \$2,000 and \$3,000. The new LaserJets represent Hewlett-Packard's fourth generation of laser printers since

1985 when the company launched the original LaserJet printer, the single most successful product in the history of the company.

Ever since, points out John Young, HP president and chief executive, the company has maintained its dominant share of the market. Over the same period, he notes that

IBM has seen its share of the PC market dwindle in the face of competition from "clone" builders.

Now Compaq, which led the battle to steal market share from IBM in the PC market in the mid-1980s, is after a piece of HP's laser printer market. This is the first significant new challenge to HP's dominance of the market in several years.

Compaq's announcement that it is moving into the network laser printer market appears to have been a long-studied choice. The PC maker dabbled with the idea for several years before unveiling its first laser printers a month ago.

Rather than taking on HP in the highest volume part of the laser printer business, Compaq is aiming at the high-performance sector with printers that produce 15 and 20 pages per minute.

The company cites reams of market statistics to support its decision. In Europe sales of 12 to 19 page-a-minute laser printers grew 72 per cent to \$40m last year, and are expected to continue growing at an annual rate of 31 per cent for the next five years, according to BIS Strategic Decisions.

In the US, this segment of the market exploded during 1991, with revenue increasing almost fourfold to \$379m, according to the market researchers. Compaq also cites studies conducted by the UK-based Rometec market research organisation showing that for every three PCs sold, two printers are sold to go along with them.

According to David Clarke, Compaq marketing director, printers are the second-largest revenue stream for PC dealers after PCs themselves - and that dealers retain higher profit margins on printers than on PCs. He argues that network laser printers have the highest possible margin and offer the ability to sell all kinds of value-added services that do not exist in the sale of a low-end system to a single user.

But Compaq faces an uphill climb. HP has a strong hold on the market, while Canon and Apple Computer also represent formidable competitors. Ironically, Compaq's entry into the laser printer market comes just as HP is renewing its efforts to become a big player in the market for personal computers.

According to at least one US market report, HP is now winning PC sales to customers who are tired of waiting for shipments of Compaq PCs that have been delayed by component shortages.

Apple ties up to dock



Apple Computer has introduced a new option for the growing numbers of "two-computer" users. The Macintosh Duo Dock system eliminates the task of switching files and data between a desktop PC in the office and a notebook computer used when travelling.

The new system lets users insert - or dock - a specially designed version of the Macintosh Powerbook notebook computer into a desktop receptacle with connections to a full-sized display and keyboard, printer and other peripherals.

Thus, the PC user no longer needs two computers. He or she

can carry the portable Powerbook on business trips and then slot it into the Duo Dock when returning to the office.

Other computer makers already offer similar docking systems, but Apple appears to have developed the most practical solution to a problem that is becoming increasingly widespread with the growing use of portable PCs.

"Users get a Macintosh desktop computer and a Macintosh Powerbook computer in a single system," says Randy Battat, vice president of Apple's portable computing division. "They can keep all their files with them and eliminate the file management problems that come from working on two separate computers."

Unlike other docking stations,

the Duo system allows users to go from desktop computer to notebook computer in one simple step.

In particular, it eliminates the need to reconfigure applications programs each time the computer is taken in or out of a docking bay.

The disappointing aspect of the announcement is that existing versions of the Powerbook do not fit in the new Duo Dock.

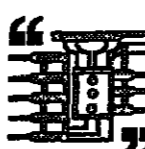
Apple is offering two docking systems. The Duo Dock is designed for offices with local area networks. It is priced, in the US, at \$1,079. The Duo Mini Dock, for individual users, will be priced at \$589 and will be available in December.

LK

Technically Speaking

Fewer jobs in the high-tech sector

By Louise Kehoe



High-technology industries are frequently called an "engine for economic growth". Many have mistakenly

taken this to mean that growth in high-technology industries will lead to rising employment, offsetting the declines in "maturing" industries.

Yet recent trends in the electronics and computer sectors raise serious questions about the presumption that technology will continue to create new jobs.

Just this month Compaq Computer cut its workforce, in the US and Scotland, by 1,000 people and Hewlett-Packard announced plans to reduce employment by 2,700 over the next few months. Apple Computer is closing a California plant with the loss of 345 jobs. Amdahl is cutting back by 900, and at Cray Research 650 employees must go.

All this comes against the backdrop of "downdispatching" at IBM, which expects to reduce its workforce by 40,000 this year, and at Digital Equipment which is cutting 28,000 jobs.

US information-technology industries, far from representing a source of jobs growth, have become significant contributors to rising unemployment. In the US alone, employment in electronics industries has declined by about 10 per cent, or 268,000 jobs, over the past three years, according to data compiled by the American Electronics Association (AEA), a US industry trade group.

"It is rapidly becoming apparent that this pattern [of declining employment] is not of short-term duration and not wholly the result of the recent recessionary period," Richard Iverson, AEA president and chief executive, has concluded.

The AEA and several other industry groups have laid the blame for US job losses on Japan. "Although the world market for electronics products and services has been expanding, our share of that pie has been shrinking dramatically," Iverson says.

Others have defined the problem in terms of declining international

competitiveness, suggesting that the US and European electronics manufacturers are falling behind those of Japan and other Asian countries.

However, it is becoming increasingly evident that there is an underlying trend towards lower employment in high-technology industries that has little to do with either global competitiveness or "closed" markets.

Put simply, it takes fewer people to develop, build and sell a computer or a chip or a piece of communications equipment today than it did a few years ago.

Hewlett-Packard, for example, has increased its revenue per worker by about 50 per cent over the past four years. Other high-tech companies are making, or striving to make, similar strides in worker productivity. Even at companies that are increasing their share of the world market the workforce is shrinking.

High-technology industries are becoming highly automated industries. Computer designers rely increasingly upon computer-aided design systems. Factories that produce semiconductor chips, disk drives and computers are full of robots. PCs are sold over the telephone in minutes.

The pace of automation in high-technology industries is currently outstripping market growth. More importantly, few within the industry anticipate a reversal of this trend, even when general economic conditions improve.

The drive to raise productivity and thus international competitiveness in high-technology industries is accelerating the trend toward lower employment, rather than alleviating it.

Does this mean that governments should no longer support efforts to boost technology leadership? On the contrary, while high-technology industries may no longer be as fertile a source of new jobs in the 1990s as they were in the 1980s, the computers and robots and communications equipment that high-tech companies build have become the essential work tools of all types of enterprise. This makes technology leadership vital to international industrial competitiveness.



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Court clarifies rules on company transfer taxes



THE European Court of Justice last week clarified the circumstances in which related company profit transfers are liable to tax.

The first case involved a contract between two German companies with the same majority shareholder to transfer profits from one to the other. The local German tax office attempted to tax a transfer on the basis that it was not a simple inter-company transaction but a payment by the majority shareholder to the recipient company. Such payments are taxable under German law.

The question of whether profit transfers between two companies controlled by the same shareholder were taxable was referred to the European Court of Justice.

The Court ruled that under Community law transfers which increased company assets were liable to capital taxes even if the company's authorised capital was not increased. The transfer was therefore taxable.

However the court said that if the recipient had held shares in the donor company then the transfer would have been

deemed a dividend payment and not subject to capital taxes.

The second case involved the transfer of certain branch offices to a new company. The transfers were made by a shareholder in the new company. Community provisions stated that a tax of only 0.50 per cent could be levied on branch transfers. The local German tax office thought this rate was too low for branches which were not independent and distinct from their main companies.

The Court ruled that in order to benefit from the 0.50 per cent tax rate, a branch had to have sufficient assets and personnel to carry out its particular activity on its own.

Cases C-49/91, *Weber Haus GmbH & Co KG v Finanzamt Freiburg-Land*, and C-50/91, *Commerz-Credit-Bank AG - Europartner v Finanzamt Saarbrücken*, ECJ 1CH, 13 October, 1992.

Fishing quota applications fall THE European Court of Justice has rejected claims for annulment of Community measures setting fishing quotas around Greenland, Norway, Sweden and the Faroe Islands in four actions brought by Spain and Portugal.

Under Community law the individual fishing quotas of EC countries are intended to

ensure relative stability for their fishing industries. The quotas are meant to take into account traditional fishing activities in the member countries, regional needs associated with fishing and the loss of fishing opportunities in third country waters.

The relevant quotas for the member states were initially set in 1983 and have not been changed since. Spain and Portugal were not included in the determination of quotas on their accession to the Community in 1986.

Their claims were based on two general points: the principle of relative stability had been incorrectly applied; and the measures were discriminatory.

The Court dealt with both points on the basis of the principle of *"acquis communautaire"*. In effect, the court said that as there were no amending provisions in their acts of accession, Community law as it then stood applied to Spain and Portugal. The 1983 determination of quotas was therefore valid.

The Court pointed out that Spain and Portugal found themselves in the same position as other members states who had not yet joined the Community when the quotas were set.

Joined Cases C-63/90 and 67/90, *Portugal and Spain v Council*; Case C-70/90, *Spain v Council*; C-71/90, *Spain v Council*; C-73/90, *Spain v Council*, ECJ FC, 13 October, 1992.

Italian aid scheme not subject to Community rules AN Italian law allowing reductions in registration fees on purchases of agricultural land by farmers does not fall within the scope of Community measures relating to increased efficiency in the agricultural sector.

Case C-162/91, *Societa Tenuta il Bosco v Ministero delle Finanze dello Stato*, ECJ 2CH, 15 October, 1992.

Dutch hormone measures valid NATIONAL rules forbidding the purchase, possession, holding or sale in Holland of animals containing traces of vari-

ous hormonal substances have been upheld by the European Court of Justice.

In spite of the fact that Community provisions only prohibit the administration of hormones to cattle or the slaughtering and selling of such animals for human consumption, the court said the wider effect of national laws did not make them incompatible with EC law.

The Dutch measures were effective in attaining the objective set down by the Community rules. However, the court emphasised that national measures should not go beyond the relevant community measures. Case C-143/91, *Leendert Van der Tas*, ECJ 2CH, 8 October, 1992.

Greek import licence decision invalid

THE European Commission brought proceedings against Greece for breach of its obligations under EC import rules. Greece had refused to grant licences for the import of matches from Sweden and Bulgaria.

The Commission had granted Greece permission to apply national surveillance measures to imports of Swedish matches. But the Court said that was no justification for the imposition of quantitative restrictions on Swedish matches.

The Court also ruled that by failing to respond in detail to questions put by the Commission, Greece was in breach of its Rome Treaty obligations. Case C-65/91, *Commission v Greece*, ECJ FC, 14 October, 1992.

Italy's failure to follow ECJ rulings

THE Commission brought a successful action against Italy for failing to take measures within the relevant time limits to implement rulings of the European Court relating to the implementation of EC tax measures. The Court reiterated that its rulings should be complied with in as short a time as possible. Case C-262/91, *Commission v Italy*, ECJ FC, 14 October 1992.

BRICK COURT CHAMBERS, BRUSSELS

PEOPLE

Berrill is latest departure from Henderson

Robin Berrill, 33, a main board director of fund managers Henderson Administration and architect of its show jumping sponsorship policy, resigned yesterday less than a week after the company announced it intended to acquire Touche Renmant, the investment trust manager.

Berrill, whose responsibilities included the marketing of investment trusts and Personal Equity Plans, quit after Henderson's chairman failed to reassure him about his future there. Touche Renmant's chief executive, Paul Manduca, has expertise in a similar area and is expected to assume at least some of those duties when the

two firms merge.

Indeed, Henderson was said to have informally approached Manduca about a job some months back but was unable to agree a suitable package. Berrill is believed to have left with a handshake worth roughly £100,000.

Berrill is the latest in a string of departures from Henderson which is struggling to overcome the haemorrhage of pension fund clients after its particularly poor investment performance in 1987 and 1988.

Recent pension fund performance has been above average but moves to strengthen management internally by bringing



in fresh faces have not all sat well with the existing team, industry insiders say.

Earlier this year, Henderson

brought in Ian Buckley from Sun Life to head its investment division - a move believed to have prompted the departure of Robin Hindle-Fisher to Phillips & Drew Fund Management.

Meanwhile, the remaining question is the future of Henderson's sponsorship of show jumping, a sport with a declining number of corporate patrons.

Henderson said yesterday that the company's investment in the sport is "substantially less" than the £500,000 reported but it will be reviewed at year end. "We are very happy with our sponsorship so far" says Henderson.

Problems brewing



Robin Simpson, under-secretary at the Department of Trade and Industry, is to become director of the BREWERS' SOCIETY, the national trade association for the brewing and pub retailing industry.

He takes over at a time when the brewing industry's relations with the government have been severely strained by the disruption caused by the

enforced disposal of a third of the major brewers' pub estates.

The industry is also becoming increasingly restive over the effects of the recession and the issue of EC duty harmonisation.

Increased personal allowances for importing drinks into the UK, coming into effect next year, are seen as a particularly serious threat to drinks retailers in south-east England.

Simpson, 52, a graduate of St Andrew's University, has been at the DTI since 1982. He was regional director in the north-east from 1986 to 1990 and is at present head of the DTI's steel, metals and minerals division.

He succeeds Alan Tilbury, a former attorney-general of Botswana, who is retiring after 22 years with the society.

Tilbury's appointment as director in 1980 broke the society's long tradition of filling the post from the top brass of the armed forces.

Finance and insurance

Jeremiah Casey, chairman of First Maryland Bancorp and chief executive of AIB US division, has been appointed to the board of ALLIED IRISH BANKS.

Paul Talbot, md of Brown Shipley Unit Trust Managers, has been appointed executive director, broker division of FIDELITY INVESTMENTS.

Geoffrey Bell has been appointed md and Robin Owens and Peter Shand

directors of BROWN, SHIPLEY & Co following the takeover by Kreditbank.

Trevor May has been appointed UK insurance analyst at BZW; he moves from Nomura.

Shawn Astey, formerly marketing director of General Portfolio, becomes director of personal markets at BUPA.

Leonard Licht has resigned as a director of KEYSTONE INVESTMENT COMPANY.

Allan Rickmann has been appointed environmental director of WILLIS CORROON Limited. He also becomes group environmental adviser.

Martin Harbridge, formerly deputy chairman of Oriel Group, becomes a director of JARDINE INSURANCE BROKERS Limited following Jardine's acquisition of a number of Oriel subsidiaries.

John Lindsey, who resigned as executive director of the Professional Golfers Association (PGA) last December, has been made golf manager at St Andrews, a new post created as part of a management restructuring at St Andrews Links Trust, with effect from next January.



The secretary of the Trust, Alec Beveridge, is retiring at the end of the year, and will be replaced by Nicky James as general manager and secretary.

Lindsey, responsible for the golfing facilities which are next year being augmented by a fifth 18-hole course as well as new practice facilities, will report to James and usher in "a new era in the provision of customer service" according to the Links Management committee chairman Robert Burns.

Before his three years at the PGA, Lindsey, 46, had been on the promotional side of Rothmans International. After a spell in Australia, he returned to London for the group in 1984, and, working with Mark McCormack's International Management Group, helped set up the Dunhill Cup.

LANCASHIRE

The FT proposes to publish this survey on November 19 1992.

It will be of particular interest to the 92% of professional investors in Europe who regularly read the FT.

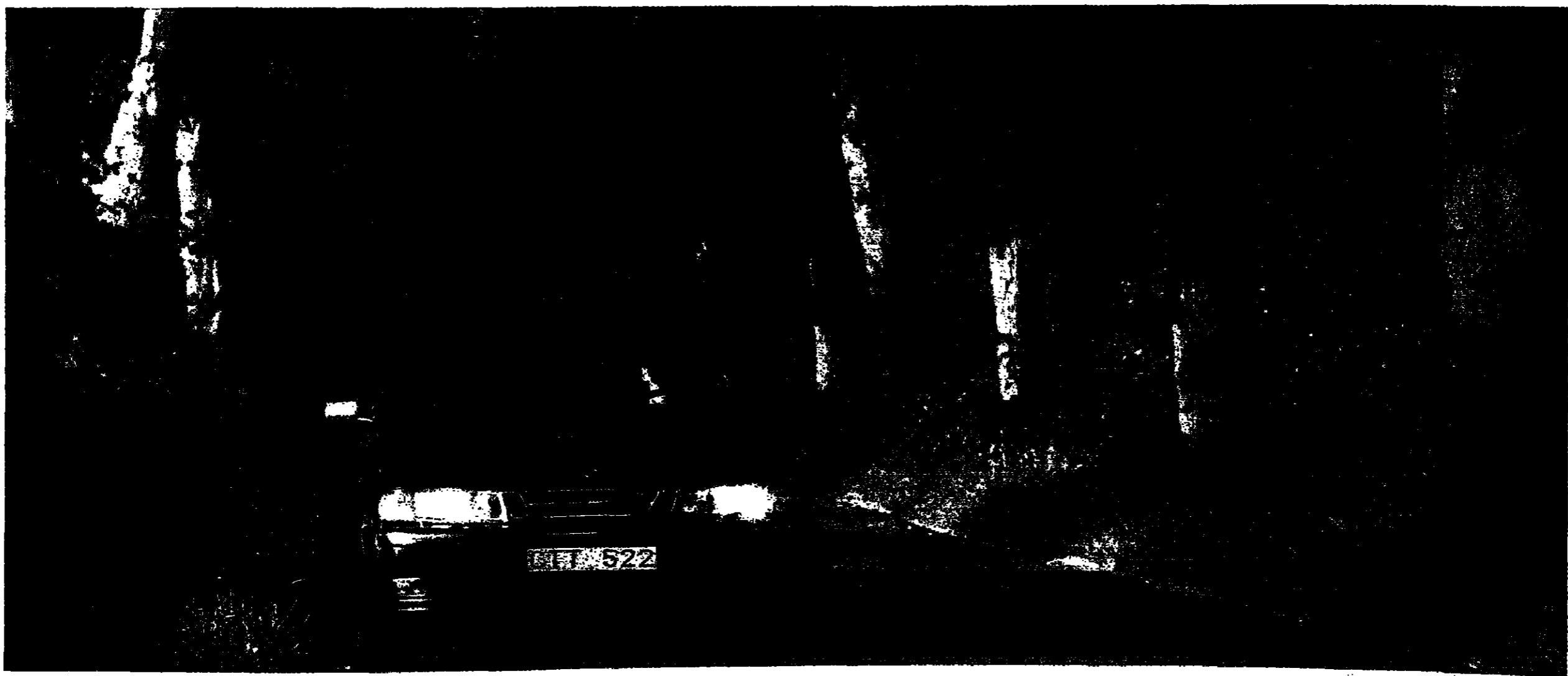
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FINANCIAL TIMES
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WHAT HAPPENED WHEN GERMANY'S TOP DOCTORS EXAMINED THE SAAB 9000?



On behalf of Statust, the German medical journal, a panel of German doctors and pharmacists took a thorough clinical look at the Saab 9000.

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ARTS
GUIDE

Weekend concerts

French quartet festival

A small but very interestingly formed string quartet festival has been unfolding at irregular intervals in the theatre of the London French Institute. Its purpose is to assemble a brightly talented collection of rising quartet groups, mostly (but not all) French, and to do into the schedule a handful of British premieres by French composers. The series is well worth sampling, for its own sake - since worthwhile new quartet groups and quartet music are always desperately needed on the London chamber-musical scene - and also as a token of the recent, and considerable, renewal in chamber-musical activity on the other side of the Channel. The day when Pierre Boulez could categorically dismiss the string-quartet medium as hopelessly old-fashioned is apparently long done, and entirely unlamented.

On Friday evening, midway through the festival programme, the Quatuor Rosamonde, prizewinners at Evian (1983) and the EBU competition at Salzburg (1986), played Berg (the Quartet, Op. 3) and Beethoven (the C major, Op. 59 no. 3) with sharp-pointed attack and an intellectual energy that informs every musical note and line. The sound is not plush, the style not remotely influenced by "Viennese" manners, leanness and clarity are evidently the corporate goals, and vigorously pursued. For these reasons, and because of the innate qualities of the music, the Rosamonde made a lively case for the British premiere of Philippe Hersant's Second Quartet (1988). Its four movements are devoted to various forms of post-impressionist

patterning, light-reflections and lingeringly sensuous plays with texture: cool, elegant, attractively cut.

On Saturday evening it was the turn of the Quatuor Parisil, winners at Banff, Evian and Munich (1986 and 1987), and of the new quartet specially written for the occasion by Gilbert Amy, distinguished Boulez pupil and associate. As it happens, only three movements had been completed in time - sufficient, however, to show that Amy's avant-garde affiliations are now tempered by other concerns and pursuits.

The music grows out of cell-like repetitions of figures in ways that appear to admit unusual influences (unusual, that is, for a Boulezian): Janáček, even - albeit at arm's length - the 70s minimalists. The effect is at once of tough argument and immediate appeal; even on this incomplete evidence it seems a work written not academically, but from deep inside the medium.

The Parisil delivered the music with tremendous authority and, again, intellectual vigour. In Webern (the early Quartet), Milhaud (the deliciously sardonic Fourth Quartet, 1946) and the Beethoven Op. 130, risks were taken, hard edges manifested in the playing, that proved exhilarating in context. Indeed, it was heartening to encounter another young French group so distinct and so committed in approach.

Max Loppert

French Institute, SW7; series organised with the Association Pro Quartet de Paris; final concerts on Oct 23 and Nov 3

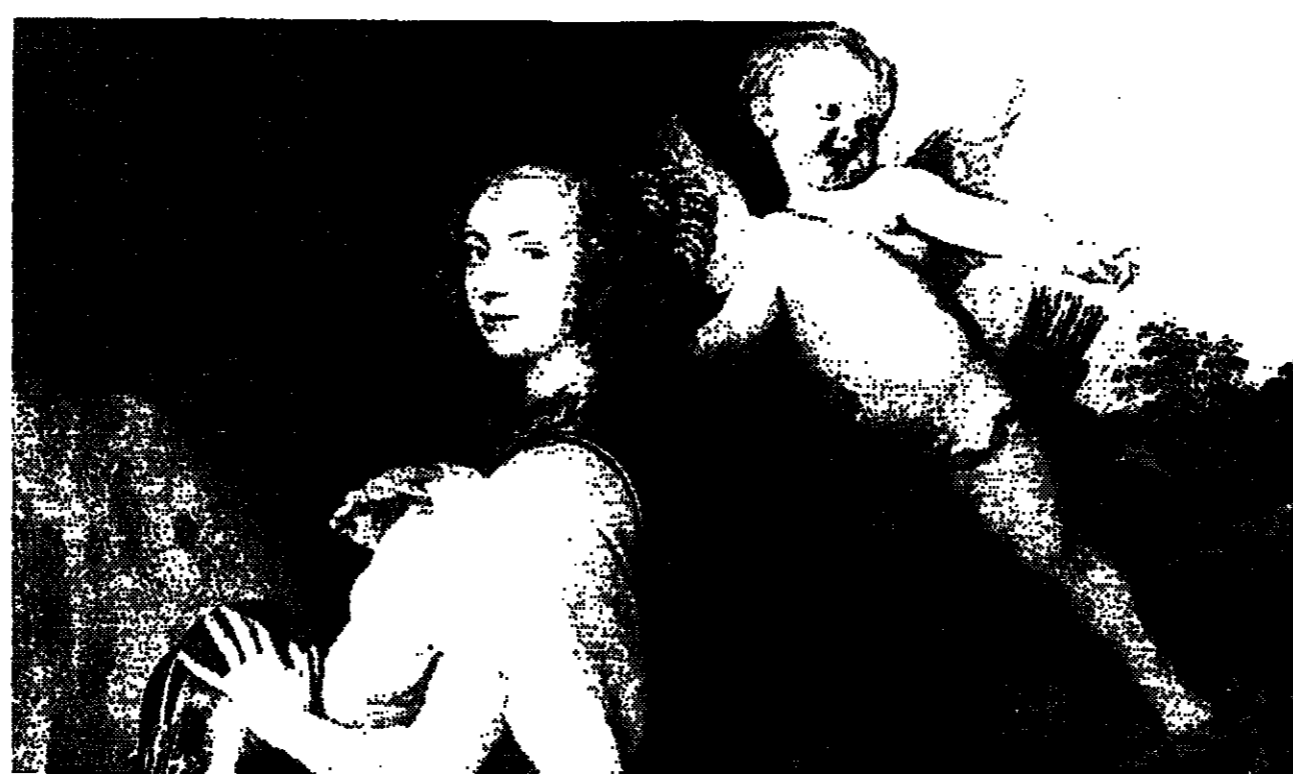
Katerina Wolpe's dedicated interpretation

The career of composer Stefan Wolpe, which embraced many places - Berlin, where he was born in 1902, the Weimar Bauhaus, Jerusalem, New York, where he died in 1972 of indigestion - is a story of indigestion. Parkinson's Disease - and numerous musical styles: tonality, jazz, Busoni-esque neo-classicism, the twelve-tones of Schoenberg and Webern - remains relatively little known and his work under-appreciated. Yet he belongs in the pantheon of 20th century masters. The piano recital by Katerina Wolpe given as part of the MusiCA series at the ICA on Sunday was most welcome and persuasive advocacy, and it drew nearly a full house.

There was special pleasure in hearing the dedicated interpretations of the composer's daughter, as in describing the family likeness; but Ms. Wolpe's performances stood by their own signal merit: her bright limpidity of touch, keenly intelligent formal sense, and instinctively classicist and restrained manner. The programme ranged widely over Wolpe's oeuvre, unfolding in nearly chronological order, beginning with the knowingly-entitled *Early Piece* from 1924. This was an interesting piece: eclectic in harmony, touching on fugue, and very distinctive in the way that it manages to combine dauntless linear flow with extreme disjointedness of form.

Wolpe's superbly intellectual *Pasazagila* of 1936 followed in a reading that was highly disciplined and articulate, full of feeling, and very slightly marred by ineptly. The *Little Studies* (1944-41), none lasting more than a few seconds, take epigrammatic subtlety as far as it can go, pre-empting the approach of the Hungarian composer György Kurtág. (The miniatures of Schoenberg's Op. 19, on which Ms. Wolpe drew for encores, chimed nicely with the studies, as with Wolpe's piano music in general.) The far more extended *2 Studies* of 1948 showed Wolpe at his best, creating a thrillingly wide sense of musical space but by means of intimate and plastic expressivity. Ms. Wolpe brought them off marvellously. The seven short movements (including a pair of fugues) of the *Zemach Suite*, written in 1939 and danced in New York by a choreographer of that name, showed a Wolpe of jazzy tonal asperity; while the two *Forms*, No. 1 from 1959 and No. 4 (subtitled *Broken Sequences*) from 1969 (the second and third, intended for chamber ensembles, fell victim to his disease), showed the composer at his most masterfully abstract - abstract and yet subtle and radiant and many-mooded and fascinating. The concert was a triumph.

Paul Driver



'A Lady as Erminia, attended by Cupid', c. 1638 by Anthony van Dyck

Bravura portraiture

William Packer reviews the 'Swagger' exhibition at the Tate

"The Swagger Portrait" is a phrase that bears any number of interpretations. To Andrew Wilton, Keeper of the British Collection at the Tate and curator of this intriguing exhibition, it may be glossed simply enough by the subtitle he has given it, "Grand Manner Portraiture in Britain from Van Dyck to Augustus John: 1630-1930".

Swagger, showing-off, self-regard and self-display - such human indulgence is as old as civilisation itself, let alone the practice of the portrait that has marked its record. Here we are offered a bare 300 years' worth, effectively limited within our own national school of painting, but the questions still come begging in. Who is doing the swaggering? It has always been quite as much the artist, up to his bravura tricks, as the mere patron who dresses up and foots the bill. And so, in that case, what, Mr Holbein, no Titian, no Rubens or Velasquez to get us going, no David, Goya, Ingres or Vierge le Brun to keep us going, nor even Whistler, Munnings, MacEvooy or Nicholson to finish up?

Wilton argues his case bravely, and within the particular context points up effectively the constant creative stimulus and exchange that British artists have enjoyed with artists from abroad - from such as Van Dyck, Batoni, Winterhalter and Sargent in successive centuries. In this respect, with Holbein, the obvious precursor, reasonably excluded, the only serious omission is Whistler: never exactly the swagger painter, perhaps, but with his consummate dandyism and rigorous aesthetic, the perfect, necessary complement and counterpoint, to Sargent above all.

The substantial achievement is simply the bringing together of so many marvellous works within a coherent sequence, and yet, mixing the obvious with the unfamiliar, keeping the whole fresh and full of surprises. This, after all, is the familiar story of a field in which the British School

stands equal, if not pre-eminent, among international peers. We know it well enough already, but at once, in a first room of some seven first division Van Dycks, we are back on our heels. How hard it is to turn away from Lady Carlisle, Mrs Porter or fair Erminia with her Cupid, but for the treats to come.

The direct comparison of Van Dyck with his young English successor at the Cavalier Court, William Dobson, is especially useful, not so much for what it tells of Dobson's antecedents as for his proper distinction. No less refined in feeling and observation than Van Dyck, he is yet more forthright and robust in spirit. His painting of the first Lord Byron clearly foreshadows the quality of 18th century British portraiture, of Reynolds especially whom, had he lived beyond his thirties, he might well have far outstripped.

It is good, too, to see Michael Wright, the Scottish painter at the Restoration Court, shown beyond the Scottish context for the cosmopolitan he was, indeed anticipating Ramsay in his travels between Rome and London. But the more notable connection is that demonstrated between Allan Ramsay and his Italian contemporary, Pompeo Batoni, painter extraordinary to the British Milford on the Grand Tour, whom he befriended on his first extended visit to Rome in the late 1730s.

Fifty years on, Henry Raeburn's Sir John Sinclair follows Wright and Ramsay in a great sequence Scotch grandees in tartan splendour. More intriguing, however, is the cast the painting makes back, on the one hand, to Dobson, on the other, forward a century to Sargent. It is at such moments that one regrets the conventional chronology of these theme shows. Dobson, Raeburn, Sargent: Van Dyck, Hudson, Gainsborough, Lawrence; Millais, Orpen, John - there is no end to it.

There are many particular treats: Hudson's extremely fetching Mary Panton in

the blue silks of her "Van Dyck" dress; Reynolds' windswept Mrs Musters; Gainsborough's dancing Giovanna Bacelli; Beechey's *Prizny*; Raeburn's harp-playing Lady Northampton; Millais' "Hearts are Trumps" of the three Armstrong daughters; the Lawrence's willowy Catherine Gray - wonderful things.

The show's final service is the challenge it offers to the received wisdom, that this great tradition in portraiture saw a sad tailing-off this century. The lie is given, in the last brave room, by the several magnificent Sargents above all, but also by Boldini and Lavery; by Orpen's exquisite Lady Rockingham and his Mrs St George; by Augustus John's extravagant Madame Suggia and by his seated William Nicholson, who should be represented here by more than his likeness.

In a happy coincidence, the Allan Ramsay retrospective shown this summer at the Scottish National Portrait Gallery at Edinburgh, where it was reviewed by Patricia Morrison, has now come to London. This study confirms Ramsay's recent critical elevation to the front rank of British painters. While the Tate celebrates him in the grand manner, at the National Portrait Gallery follows his later transition into a closer, more delicate and intimate realism. The psychological intensity of his scrutiny is remarkable, his delicacy more French than anything else in British art, his colour of the utmost refinement. As a painter of men, and in his self-portraits, one begins to think of Goya. As a sympathetic painter of women, young and old, he has no rival.

The Swagger Portrait: The Tate Gallery, Millbank SW1, until January 10. Allan Ramsay: The National Portrait Gallery, St Martin's Place WC2, until January 17: sponsored by Mobil North Sea - a concessionary ticket is available to cover both exhibitions.

Chamber Orchestra of Europe

Period polish

On the face of it, a small-orchestra programme of Beethoven, Haydn and Schubert would seem unlikely to fill the Barbican Hall. On Saturday, however, the band was the crack Chamber Orchestra of Europe, and their conductor was the period specialist Nikolaus Harnoncourt. He is better known for his Bach and Monteverdi, but he has strong convictions about performing styles in later music too. Nothing in this programme was less than crisp and vivid.

That was true even of the little Haydn violin concerto in G, called "no. 2" - but possibly not by Haydn at all. The

orchestra's leader, Marieke Blankstijn, was the coolly assured soloist; the accompanying strings addressed their music in strictly pre-Romantic style. For Beethoven's First Symphony and Schumann's Third, the "Rhenish", there were smaller period timpani, dry and effective, and in the earlier work fine valveless trumpets.

The trumpeters returned for the Schumann with instru-

ments of a later model, and a perfectly balanced trio of trombones spoke beautifully in the "Cologne Cathedral" movement. But all the parts of the orchestra gleamed in that lush, plush sound of a big modern band, we had a little polyphony of voices, all colourfully distinct. Harnoncourt's best can be slightly unrelenting, but for the pawky +Ländler+ movement - the so-called Scherzo

- he relaxed to wholly disarming effect. The string of little dances took on a comic mock-innocence.

In the Beethoven Harnoncourt was severe, in his more usual manner. He insisted upon clean, sharp dynamic extremes - bracing, sometimes even disconcerting, but convincing. If his treatment was occasionally stiff, the exuberant brio of his players went a long way toward compensating for it.

David Murray

Barbican Hall, Sponsored by ICI

Opera/Andrew Clark

'The Fiery Angel' and 'Stiffelio'

Germany's municipal theatres are famed for their novelty-seeking opera productions - but as long as the music is familiar, the public will buy it. Give them something unknown, and they are notoriously conservative. That is why most companies stick to tried and tested favourites, however unrecognisable the characters may appear when they reach the stage. Fortunately, there are occasional exceptions, when a well-cast, well-staged production makes an immediate impact, and word gets round that a little-known work is actually worth hearing. This has been the case with *The Fiery Angel* at Freiburg and *Stiffelio* at Ludwigschafen.

Unlike Shostakovich's two operas, which are fast becoming repertory works, Prokofiev's more substantial output is virtually unknown in Germany. The Freiburg *Fiery Angel* will help redress the balance. The work's structure may be illogical, its grotesque climax too farcical for Teutonic taste, but it is otherwise well-suited to the German theatre: a fast-moving, colourful, virtually indestructible music drama about obsession and devil-possession. It offers a tough challenge to its leading soprano - which Vivian Tierney, a familiar voice at Glyndebourne and ENO, meets with thrilling equanimity.

She may not yet possess the sheer weight of tone considered desirable for Renata, but she sounded comfortable in the role, as if stamina were taken for granted. There was ample projection and dramatic expression, and her pure, well-

by Maja Schell-Lemcke - adopted a bare essentials approach, in which a set of dislocated representational designs, imaginatively used and selectively lit, created a potent theatrical atmosphere. Haunting the proceedings from the start were a group of diabolical black-hooded figures, moving in slow motion and working up a powerful cauldron of steam in the Agrippa scene. These, one presumed, were the same characters who transformed into monks, set about raping the crazed nuns in the expertly choreographed pandemonium of Act five.

Verdi's *Stiffelio*, about a German Protestant priest who confronts and eventually forgives his adulterous young wife, had never previously been performed in Germany (although its later re-incarnation as *Araldo* was staged several times in the 1950s and 1960s). The opera's subject-matter has never matched Italian taste,

Prokofiev's fast moving music drama about obsession and devil-possession well suits German theatre

but it seems to be enjoying a minor revival north of the Alps. London's Royal Opera will stage it in January, and Ludwigschafen's Italian-language production will be shown later in the Netherlands, Belgium and Poland.

The Swiss producer/designer Marco Arturo Marelli gave the work a clear, concentrated aesthetic, drawing attention not to production tricks, but to the human drama in Verdi's music. The action was dwarfed by a simple set of blue-grey panels, re-aligned and re-lit according to the demands of each scene. Together with Dagmar Niefeld's black period costumes, they captured the austere religious claustrophobia which surrounds the drama. The principals acted with poise, while the chorus scenes had severe formality, from which Marelli drew maximum expressiveness. One does not often encounter Verdi productions as discreet and intelligent as this.

There were no big Italianate voices on offer, but the cast was balanced and sang with a sense of style. As the adulterous Lina - her symbolic red wig and shawl providing the only visual colour all evening - Inga Nielsen delivered her arias with delicate expression, as precisely-tuned in her crystalline top as in her ample chest register. The stage presence was graceful but cool. As Stankar, the opera's strong-tongued father-figure, Eduard Tumanjan gave an experienced performance, despite his narrow vocal range. In the title role, which must rank as the most unromantic of Verdi tenors, Zvetan Michailov sang elegantly, but with tight, bottled tone. Lothar Zagrosek's neat conducting lacked Verdian fire. The local Ludwigschafen chorus was excellent.

I enjoyed this encounter with *Stiffelio*. It may lack the consistent melodic inspiration of its immediate predecessor, *La Milla*, or the dramatic breadth of the later works, but it is short, coherent and unmistakably Verdian.



'Fiery Angel': tough challenge for Tierney

produced voice had an appealing lustre, with no uneven squalls. In visual terms, she portrayed a tragically youthful heroine, slim, athletic, almost angelic, darting barefoot and terror-stricken across-stage in the opening scene, clinging restlessly to Ruprecht in Act two, unnervefully self-contained in the finale. Miss Tierney came over as a fresh and sincere artist, drawing the best from those around her (and singing in excellent German). She found admirable support not just from Neal Schwantes' chivalrous young Ruprecht, but from the conductor Thomas Gabrisch, who kept orchestral dynamics well under control.

The production team - staged by Wolfram Mehling, decor by Herbert Muraier, costumes

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SATURDAY

CHN 0800-0830, 1900-1930 World Business This Week - a joint FT/CNN production
Super Channel 0830-0900 FT Business Weekly
Sky News 1130-1230, 1730-1800 FT Media Europe

SUNDAY

CHN 0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly
Sky News 0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw 20.00 Handel's oratorio Susanna. In the Kleine Zaal, Mitsuko Shirai gives a song recital. Tomorrow: Julian Bream. Thurs: Bartók Quartet plays Bartók. Fri: Marius Jansons conducts St Petersburg Philharmonic in works by Rossini, Schoenberg and Shostakovich. Sat afternoon: Evgeny Kissin piano recital. Sat evening: Antoni Ros-Marba conducts Netherlands Chamber Orchestra in works by Copland, Mozart and Ginastera. Mon: Hartmut Haenchen conducts Netherlands Philharmonic (67'18 345)

Muziektheater 20.00 Offenbach's Les brigands (also Thurs, Sun and next Wed). Tomorrow, Fri and Sat: Dutch National Ballet in Peter Wright's production of Sleeping Beauty. Nov 4: Nikolaus Harnoncourt conducts revival of Jurgen Flihm's production of Così fan tutte (6255 455)

ANTWERP

De Vlaamse Opera 20.00 Silvio

Varviso conducts Robert Carsen's production of Turandot, with Johanna Meier in the title role. Final performances on Thurs and Sun. The next production is Lully's Armide, opening on Nov 15 (233 6866)

CHICAGO

CHICAGO SYMPHONY Neeme Järvi conducts works by Martinu, Elser and Dvořák tonight in Orchestra Hall. Thurs, Fri, Sat and next Tues: Erich Leinsdorf conducts works by Pfitzner, Zemlinsky, Stravinsky and Copland. Leinsdorf also conducts next week's concerts, and Georg Solti returns for two weeks starting Nov 12. Pierre Boulez will conduct four different programmes between Nov 25 and Dec 19 (435 8866)

CHICAGO LYRIC OPERA Tomorrow's performance at Civic Opera House is Elektra, with Eva Marton and Leonie Rysanek (also next Mon and Fri). The Bartered Bride is on Sat and next Tues. Ben Heppner and Catherine Malfitano sing in world premiere of William Bolcom's new opera McTeague on Oct 31 (332 2244)

MUNICH

OPERA/DANCE Tomorrow in Prinzregententheater, Stefan Soltesz conducts a concert performance of Otello, with Alexei Steblanko and Sharon Sweet. Tomorrow till Sun in Cuvillies-Theater: ballets by Uwe Scholz and Hans van Manen (221316)

CONCERTS

Emerson, Lake and Palmer give tonight's concert at Gasteig. Tomorrow: Hartmut Haenchen conducts Netherlands Philharmonic Orchestra in works by Beethoven, Brahms and Schubert. Thurs: Dave Brubeck. Fri: Keith Jarrett. Mon: Manhattan Transfer. Wed: St Petersburg Philharmonic. Next Thurs and Fri: Lorin Maazel conducts Richard Strauss (48098 614). Next Tues in Herkulessaal der Residenz: Andrei Gavrilov piano recital (346820)

THEATRE

The Kammerspiele repertoire includes Ibsen's When We Dead Awaken, Shakespeare's King Lear and Much Ado About Nothing (23721 328). Deutsches Theater has the Broadway musical 42nd Street, opening on Fri (5144 360). The Residenztheater has Ibsen's Ghosts, Ariel Dorfman's Death and the Maiden and Lessing's Minna von Barnhelm (225754)

NEW YORK

JAZZ/CABARET Blue Note This week's guest artist is Regina Belle. Music from 21.00. Dining (131 West 3rd St, near Sixth Ave, 475 8592). Algonquin Hotel Andrea Marcovicci is in the midst of a long engagement in the Oak Room, with a programme titled Just Kern. Shows at 21.30 Tues till Sun, with an extra one at 23.30 at weekends (59 West 44th St, 840 6800). Ballroom Two top-flight cabaret artists, Anne Francine and

Margaret Whiting, are in the middle of a run. Tues to Sat at 21.00, Sun at 19.00 (253 West 28th St, 244 3005).

Rainbow & Stars Maureen McGovern, a powerful, versatile singer, can be heard daily except Mon at 21.00. Dining (30 Rockefeller Plaza, 632 5000). Michael's Pub Vernel Bagneris offers a one-man tribute to Jelly Roll Morton. Tues to Sat at 21.15 and 23.15 (211 East 55th St, 758 2272).

PARIS

DANCE William Forsythe's Frankfurt Ballet opens its latest residency at the Châtelet tomorrow with three Forsythe choreographies. Daily except Fri till Oct 28 (4028 2840). Rudolf Nureyev's new Opera Ballet production of La Bayadère can be seen daily at Palais Garnier till Oct 31, except Sun and Mon. Nov 3-8: Alvin Ailey American Dance Theater (4017 3535). Ballet National de Marseille presents a Roland Petit evening at the Opéra Comique, daily from tomorrow till Oct 30, except Sun and Mon (4286 8883)

OPERA

Myung-Whun Chung conducts Jeanne d'Arc au bûcher tonight, tomorrow and Sat at the Opéra Bastille, with four further performances next week. Thurs and next Mon: Jiri Kout conducts David Pountney's production of Elektra, with Gwyneth Jones (4001 1616)

CONCERTS

● Tonight at Salle Pleyel,

Andras Schiff gives a Schubert piano recital. Fri: Alfred Brendel plays Beethoven (4561 0630)

● Tonight at 19.00 in Châtelet Auditorium, Melos Quartet gives the first recital in its complete survey of Beethoven quartets. The cycle continues tomorrow and Thurs, followed by three more concerts in late Nov. Also at Châtelet, Pierre Boulez conducts Ensemble InterContemporain in works by Ligeti and Webern on Fri. Oct 29: Jeffrey Tate conducts Schumann's Faust scenes (4028 2840)

WASHINGTON

CONCERTS/DANCE Mark Morris Dance Group presents Dido and Aeneas this week at Kennedy Center Opera House (tomorrow till Sun at 19.30, with an extra matinee performance on Sat). In the Concert Hall on Fri, Dimitri Kitarenko conducts Frankfurt Radio Symphony Orchestra in works by Webern, Brahms and Prokofiev. Sat: James Galway recital. Next week: Washington Ballet. Oct 29, 30, 31: Rostropovich conducts Shostakovich. Nov 1: Itzhak Perlman. Nov 4: Kirov Opera Orchestra (467 4600)

JAZZ/CABARET Barns of Wolf Trap Tonight at 20.00. John Campbell and Chris

Whitley, singer/songwriters and guitarists. Tomorrow: Joe Ely Band, Texas-style rock. Thurs and Fri: The Roches, three-part folksong vocals. Sat: Brave Old World, traditional east European Klezmer music. Next week: Buckwheat Zydeco (703-218 6500)

Blues Alley Jazz Supperclub This week's guest is guitarist Charlie Byrd, daily till Sun (1073 Wisconsin Ave, in the alley, 337 4141)

THEATRE

Center Stage The Servant of Two Masters, Goldoni's fast-moving farce, runs till Nov 8 (410-332 0033)

Ford Theater Captains Courageous, a musical inspired by Kipling about a Portuguese fisherman and a young boy, runs till Nov 22 (347 4833)

ZURICH

Opernhaus A new production of The Nutcracker, choreographed by Bernd Roger Blenert, opens on Sat. Other performances this week are Semiramide on Thurs, Die Zauberflöte on Fri, Fidelio on Sun afternoon and Il Pirata on Sun evening. Nov 7: first night of Giordano's Fedora with Balisa and Carreras (262 0909)

Tonhalle Walter Weller conducts Tonhalle Orchestra tonight, tomorrow, Thurs and Fri in music by Beethoven and Mozart, with piano soloist Olli Mustonen. Sun: Mikhail Pletnev conducts Russian National Orchestra (208 3434). Next Tues: Zurich Chamber Orchestra (252 1737)

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Tuesday October 20 1992

A government on the run

EVEN AS formidable a politician as Michael Heseltine, president of the Board of Trade, cannot make yet another retreat look like a victory. Last week the government insisted that 31 pits should close at once. Now it offers at least a three-month reprieve to 21 of those previously condemned. Regardless of the merits of the case, such a defeat must be damaging. The UK would not be better off under a mob rule of craven Conservatives and backward-looking socialists, baying for more inflation and the preservation of any job, however uneconomic. The government has to impose itself upon events once more.

The dangers of a total loss of credibility are now severe. A firmly worded commitment has once more proved to be written on water. Will a government so terrified of its backbenchers be able to carry the Maastricht treaty through the House of Commons? Will it be able to close redundant London hospitals, any more than redundant pits? Will it be able to control public spending? Will it, in fact, be able to govern?

Long-term goal

The coal saga demonstrates the political advantages of privatisation. It is partly because the government is held responsible for the coal industry that a fairly straightforward industrial decision has created such a political storm. It is partly because adjustment to economic reality was resisted so long that much of the coal industry still seems to be unviable. Neither consideration exculpates the political ineptness of the announcement of these closures. But it does justify the government's longer term aim of creating a normal private industry out of nationalised British Coal.

The economic case for closures seems equally persuasive, at least at first sight. Keynes once argued

that, short of any better cure for a recession, people should be paid to dig up bottles full of pound notes that had first been sunk into the ground. Paying people to dig up coal that is destined for ever growing stocks would be just as foolish. By now it should have been accepted, even in the UK, that it makes better sense to pay people to produce goods and services that someone actually wants, even in a recession.

Independent review

Unfortunately, the government's economic case has a large hole in it. Because of the botched electricity privatisation, it is impossible to be confident that the "dash for gas" is economically sensible. Moreover, while the past militancy of the miners may justify some diversification of energy supplies, the subsidising of nuclear power can hardly be justified at anything like current levels.

It is because of the disquiet over the structure of the electricity industry that the Labour party's proposal for an independent review of the coal closures is appealing and may prove persuasive. If the political costs of yet another government climb-down could be ignored, it would make good sense to postpone the decision on coal until after a public review of the implications of the structure of the electricity industry for the efficient use of alternative fuels.

Politically, a review would also postpone the evil day of further closures, perhaps to a time when an economic upswing is in evidence. Economically, a thorough review would be the occasion for remedying the defects in electricity privatisation. On its merits, this is an option well worth considering.

It would also be another defeat. Since the government has picked a fight with the wrong enemy at the wrong time, further defeat may even be inevitable. All such defeats are damaging to the capacity to govern, which is why it is important to choose one's ground wisely. But what the government most needs is an overall economic strategy. With one, its effectiveness might survive still more compromises over the coal closures. Without one, it is in serious trouble.

Make consensus work

THE SOLIDARITY talks instigated by Mr Helmut Kohl more than one month ago appear to be splintering into life. The talks, aimed at placing the financing of German unity on a sounder footing, are crucial to the economic health of Europe. The sooner the participants get down to details the better.

Mr Kohl himself has done no more than talk in general terms about sacrifice. Mr Franz Steinckhöfer, leader of the powerful IG Metall engineering union, has been rather more specific and suggested that his members would accept pay rises for the next five years that do no more than maintain purchasing power.

Mr Steinckhöfer does not go far enough, but he has shown that the unions are ready to talk. His comments have been welcomed by Mr Theo Waigel, the German Finance Minister, and Mr Norbert Blum, the labour minister.

Mr Steinckhöfer also makes sense about the need for general tax increases, which the government has so far refused to contemplate. He wants the tax rises to last longer and be more fairly distributed than in 1991. According to the RWI economic institute, the self-employed and the *beamte* (public officials) have so far contributed only 1.5 to 2 per cent of their incomes to financing unity, whereas manual workers have contributed about 4 per cent. That is partly because neither the self-employed nor the *beamte* contributed to the 1991 increase in unemployment insurance.

Productivity gap

Yet useful as these suggestions are, they do not address the problem of rapid wage convergence between the eastern and western *lander*, for which Mr Steinckhöfer's union bears some share of the blame. The attempt to equalise east and west German wages, given the large productivity gap between the two regions, has proved to be a recipe for mass unemployment in the less productive regions to the east of the Elbe.

Mr Steinckhöfer says he wants more investment in the east, not lower wages. But why should German companies invest there when they can get the same labour at a fraction of the price in Poland or

Czechoslovakia? The result is that his west German members face higher taxes to pay for the unemployment for which they are, in part, responsible.

The bargaining system in western Germany has contributed to the orderly distribution of an expanding cake over several decades. But in the east, the system needs to be suspended to allow west German companies to pay the market rate there, with wage subsidies from the government a possibility for those who fall beneath a certain level.

Wider question

All of this raises a wider question. The solidarity talks are based on the premise that Germany's consensus model in politics and industrial relations is still functioning and is not itself responsible for many of the inflexibilities exposed by unification.

At least one of the parties in the centre-right coalition, the Free Democrats, believes that consensus is the problem, not the solution. It says that it has prevented the reduction in subsidies in the west and the promotion of a more vigorous privatisation programme to help pay for unity. It also points out that it was a consensus reflex which imposed the goal of an over-hasty equalisation in living standards between east and west.

What could a pact realistically agree? If Mr Kohl accepts higher taxes to close the fiscal deficit, the unions must accept zero real wage growth in the west and a postponement of wages convergence between west and east. Equally, if the government is ready to consider the sort of profits levy favoured by the unions - one imposed on companies which do not invest in east Germany - then the unions and the opposition Social Democrats must accept a much tighter squeeze on subsidies and more privatisation in the west.

Paradoxically, Germany is suffering from both too much and too little consensus. Rather than abandoning the system altogether Germany needs to apply it more sensibly. That means exploiting consensus at a political level to tackle the rigidities that consensus has produced at the economic level.

Satoru Asami was shocked. His long-held beliefs about the benefits of being Japanese had been dashed. Recently, his company, Ohkura Electric, a medium-sized Japanese electronics manufacturer, fired him without warning. Mr Asami recalled: "All I got was a piece of paper, there were no explanations."

Mr Asami was one of 130 people Ohkura made redundant by closing a components factory at Saitama, west of Tokyo, after the company had reported pre-tax losses for the past two years.

As Japan's economic downturn spreads from property and finance into industry and retailing, demand for labour is contracting fast. As a result, the social contract which has governed employment in Japan since the 1950s, offering workers at large companies lifetime employment in return for their devotion to the company, is being threatened. Over the next year this contract, one of the most distinctive features of Japanese capitalism, will be put through its toughest test.

Figures published last week show that official unemployment is still only 2.2 per cent, well below the average for OECD economies of 7.5 per cent. However, the labour market's health is deteriorating rapidly. For every 100 job-seekers there are 102 jobs, a ratio of 1.02, close to equilibrium and sharply down from 1.45 in March last year. But soon there will be an excess supply of labour as Japan faces what could be its worst recession since that caused by the oil shocks of the 1970s.

Mr Shijuro Ogata, former governor of the Japan Development Bank, now a senior adviser to Yamaiichi Securities, said: "So far this has been a company recession, with companies taking the strain in the form of lower profits. It could become an individual recession with people paying the cost through employment adjustment."

Whether the weakening of the labour market will lead to lasting changes in the Japanese system will depend on how companies reconcile the traditions of lifetime employment with the need to boost profitability after three successive years of decline in the corporate sector.

Lifetime employment lends companies a potent mixture of flexibility and rigidity. Employees at large companies are treated as if they are a fixed cost with their base salary paid whatever the economic environment. But companies demand considerable flexibility, and workers are often required to shift between jobs. This implicit contract would fall if companies resorted to large-scale redundancies.

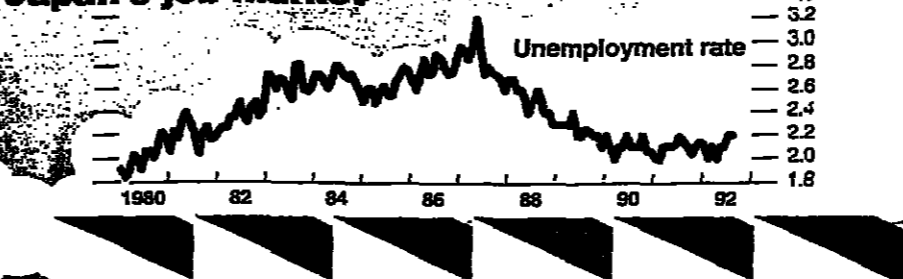
Employers have another pressing concern which would make them reluctant to sack people. Japan's low birth rate means that, by the end of the decade, the country could face a labour shortage. Companies are unwilling to shed workers now, only to risk skill shortages once the economy recovers.

The problem is that profitability is plunging. Japanese business has become accustomed to very high rates of economic growth, and this has largely shaped strategy. They generally carry high fixed costs - including labour costs - which they cover by selling large volumes of shares, cars or videos at relatively thin profit margins. When sales increase sharply, so do profits. In a downturn, however, Japanese companies take longer than their international rivals to restore profitability because they do not use redundancies to cut costs in line with lower output.

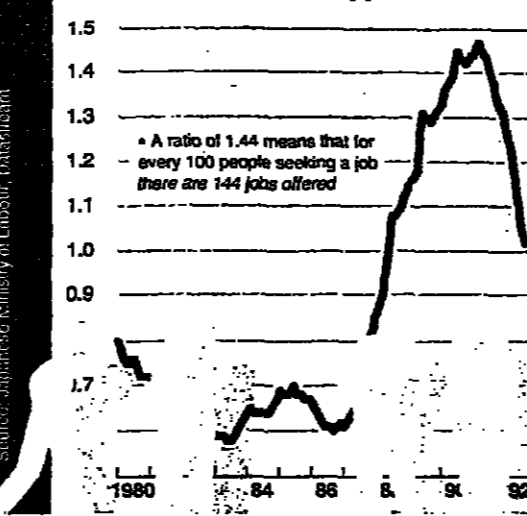
The prospect of slow economic growth is threatening Japan's system of lifetime employment, writes Charles Leadbeater

Sayonara to job security

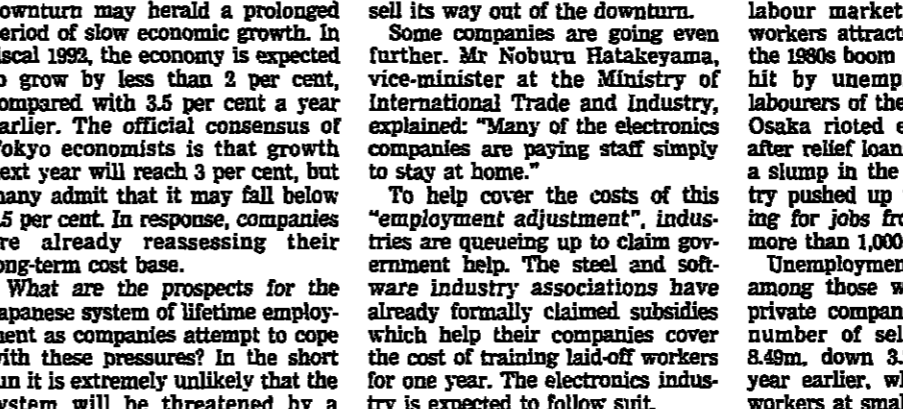
Japan's job market



New job offers to applicants ratio*



GNP growth



The pressures of the current downturn may herald a prolonged period of slow economic growth. In fiscal 1992, the economy is expected to grow by less than 2 per cent, compared with 3.5 per cent a year earlier. The official consensus of Tokyo economists is that growth next year will reach 3 per cent, but many admit that it may fall below 1.5 per cent. In response, companies are already reassessing their long-term cost base.

What are the prospects for the Japanese system of lifetime employment as companies attempt to cope with these pressures? In the short run it is extremely unlikely that the system will be threatened by a sharp rise in officially registered unemployment. The economy, and total employment, are still growing, albeit slowly. In August the male employed workforce stood at 39.2m, up 1.1 per cent from the year before; the female workforce stood at 27m, up 0.4 per cent.

Most economists do not expect unemployment to rise above 3 per cent over the next year, mainly because companies are prepared to go to extreme lengths to retain staff. Many have reduced working time. Total overtime hours in manufacturing fell by 24 per cent in the past year, and total working hours fell by 3 per cent last month.

Transfers within big companies are becoming commonplace. Mazda, the car maker, has moved staff from

production to sales in an attempt to sell its way out of the downturn. Some companies are going even further. Mr Noburu Hatakeyama, vice-minister at the Ministry of International Trade and Industry, explained: "Many of the electronics companies are paying staff simply to stay at home."

To help cover the costs of this "employment adjustment", industries are queuing up to claim government help. The steel and software industry associations have already formally claimed subsidies which help their companies cover the cost of training laid-off workers for one year. The electronics industry is expected to follow suit.

Such strategies suggest that a revolution triggered by rising unemployment is extremely unlikely. But pragmatic reform is almost certain. The coverage of the lifetime employment system will be reduced and its terms tightened; its benefits will be increasingly confined to young, male, full-time, white-collar workers.

Lifetime employment is largely confined to employees of large companies. The gap between those in mainstream employment and those on the fringes of the labour market will widen. The Japanese labour market is like an onion with many rings; the outer rings will be peeled off first to protect the core.

decline in male employees.

About half the 2,700 employees at the Tobu department store at Ikebukuro, a commuter junction on the outskirts of central Tokyo, are women. Mr Isao Kubokawa, the managing director, believes that despite a loss this year the company will avoid redundancies. "Within the next three years many of these young women will get married and leave, so the workforce will be cut by natural wastage."

Members of two other groups - the young and the old - could find themselves partially excluded from the system. Older workers are supposed to be the most respected at Japanese companies, which operate systems of promotion by seniority. However, the seniority system is starting to fray at the edges as companies such as Sanyo, the electronics manufacturer, implement early retirement programmes for staff over 50.

At the other end of the labour market, young workers are being hit by recruitment freezes. Job offers from companies employing more than 1,000 people were 51 per cent down in August compared with the previous year. CSK, Japan's largest software house, plans a 70 per cent cut in graduate recruitment next year, while All Nippon Airways, Japan Airlines and the Central Japan Railway company all plan cuts of about 30 per cent.

For the next couple of years new membership of the inner sanctum of the Japanese labour market will be limited. But even for those in the protected core life will get tougher.

First, companies are becoming more selective about which managers they want to retain and motivate. Performance is becoming more important in setting executive pay, rather than simple seniority. Cuts in executive salaries and benefits are becoming commonplace in both manufacturing and financial services. NTT, the large telecommunications concern, is cutting management bonuses by 5 to 10 per cent. IBM Japan has imposed a pay freeze for 300 managers.

Companies are also streamlining their management. Mitsukoshi, Japan's most famous department store, plans to cut management posts from 2,600 to 1,100.

Second, some leading employers are drawing up long-term plans to overhaul their corporate cultures by encouraging individual initiative and promotion by merit, as well as reducing their cost base. In June, Honda, the car maker, introduced an innovative merit-based payment system to motivate employees; the programme will gradually introduce an annual pay scheme based on performance, rather than seniority.

Meanwhile, Nomura, the largest finance house, plans a 17 per cent reduction in its workforce to meet increased competition from banks in a sluggish securities market.

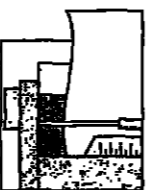
Mr Richard Koo, senior economist at the Nomura research institute, said: "Other companies must be thinking of following Honda's lead because payment and promotion by merit is the best way to retain the young staff a company needs while cutting costs by paying less to those it does not need."

Leading companies such as Honda and Nomura may be pointing the way for the rest of Japanese companies away from a strict system of lifetime employment. Slower growth over the next few years may force a gradual but significant evolution in a system which has been at the core of the Japanese economic miracle.

PERSONAL VIEW

Struggle to fly solo

By George Williams



Dan-Air's search for a partner is further evidence of the difficulty faced by medium-sized airlines attempting to survive as independent entities in a deregulated European scheduled market.

There are now only four truly independent scheduled operators of jet aircraft remaining in western Europe, aside from those in Scandinavia: Meridiana, Portugalia, Ryanair and Virgin Atlantic. Of these, Ryanair almost certainly owes its continuing existence to intervention by the Irish government to prevent Aer Lingus from directly competing on a number of its main routes.

The belief that liberalisation would present charter carriers with an opportunity to access scheduled markets previously denied them has proved overly optimistic. The problems faced by Dan-Air in building a European network of scheduled routes from Gatwick in the wake of Air Europe's demise provides another illustration of this.

Preventing competitors acquiring medium-sized scheduled airlines based in one's home territory is a vital part of the defensive strategy of several top European flag carriers.

Access to airports with limited "slots" has been a particular focus of attention in this regard. For instance, British Caledonian Airlines' threat to British Airways was not great while BCal was independent; but had BCal's valuable assets been acquired by a powerful rival, then the new entity would certainly have posed a problem to BA.

The "tying in" of locally-based small and medium-sized scheduled airlines has been a tactic employed by many western European flag carriers.

Air France, for example, has contracted smaller carriers to operate services on its behalf. Brit Air and TAT, two French regional airlines, have been two beneficiaries of this policy over the past decade. More recently, there has been an increasing trend for a carrier to become a part-owner of a smaller airline, in some instances even acquiring total ownership.

In any event, the European Commission's insistence that Air France divest itself of several international and domestic routes and its shareholding in TAT in order for it to gain EC approval to acquire UTA, has hardly resulted in a rapid upsurge in competition.

In such circumstances "biting the hand that feeds you" would hardly seem a sensible course of action. Directly challenging the flag carrier may not appear a particularly attractive proposition, especially if a complementary role is on offer.

The deregulation of the US domestic airline market in the 1980s led to a more competitive industry. Substantial gains in efficiency followed with competition forcing the former trunk carriers to reorganise and reduce their operating costs. Average fares fell in real terms and demand for airline services doubled over a decade.

Today, these competitive pressures have not abated, being artificially sustained by bankruptcy legislation that has enabled several financially troubled carriers to survive. While consumers have benefited from lower fares, the outcome for carriers in what has been a protracted economic downturn has been massive financial losses.

If global consolidation is allowed to continue then it is conceivable that the industry will ultimately be controlled by a dozen consortia. In such circumstances competition is likely to be more controlled than

during the hysteria of recent years. While much of the competitive pressure experienced by the US airline industry has largely been the result of the entry of new carriers the real innovators have been the larger existing carriers.

These companies - transformed into lean and efficient marketing giants - have demonstrated considerable skill and imagination in attracting more customers and boosting revenue.

Despite this transformation, the industry has yet to achieve the rates of return on invested capital that are typical of other industrial and service sectors, though shareholders and management expect this gap to narrow.

In the longer term competition from a comparatively small number of global players will be sufficient to keep the airline industry lean and efficient. While this seems a reasonable assertion, it is expectations about the extent and nature of the competition that are of more crucial concern.

An important benchmark will be provided by the financial returns in other sectors. As a consequence, airline shareholders are likely to gain a greater share of the benefits of the improved efficiency that results from deregulation; further cuts in average real fares would appear unlikely.

Old-style cartels are unlikely to return, but in certain respects the degree of control that surviving consortia will be able to exert will give such an impression. Choice will exist, but governments may need to tackle regulation on a global scale if consumer interests are accorded too low a priority by a more mature airline industry.

The author is senior lecturer in transport economics, Middlesex University

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The men are for turning

Major's government will continue to run scared until the recession begins to end



The part-moratorium on pit closures announced in the Commons by Mr Michael Heseltine yesterday is a cry for help from a government that is running scared. The fear in the eyes of ministers reflects the fear in the hearts of many ordinary people: it is a fear of unemployment. Mr John Major and his colleagues are behaving like politicians on the run. On Sunday night those closest to the prime minister were summoned to an emergency gathering. This was followed by an emergency cabinet meeting yesterday morning. The foreign secretary, who should have accompanied the Queen on her visit to Germany, stayed behind until yesterday afternoon. The chancellor missed his appointment with European ministers of finance. They have all clearly had the fright of their lives.

What remains open to question is whether they are afraid for the right reasons. Consider what has happened. A week ago Mr Heseltine, who has taken the title of president of the Board of Trade, said that 31 pits would close over the next five months, with the direct loss of 30,000 jobs. To the apparent surprise of the prime minister, and those of his cabinet colleagues who knew of the decision, that single announcement set off an explosion of public outrage that has yet to subside, in spite of yesterday's huge climbdown.

Such was the force of this explosion that the talk over the weekend was of whether the Conservative government will survive (it will) and, more directly, whether John Major will stay in office (he almost certainly will). The prime minister lost much of his authority when Britain was forced out of the exchange rate mechanism on September 16. His reputation has since been further damaged, first by the lack of preparation of public opinion for the coal closures, and then by yesterday's retreat. The question is - how damaged?

To answer this we must establish why public disapproval of the government's initial decision was so intense. It had little to do with a national desire to preserve the coal mines. The dismissal of miners does arouse a sentiment in the middle classes that does not apply to other workers, many more of whom have been made redundant over the past decade than the number of pit-workers now under threat. The abrupt manner of Mr Heseltine's announcement, and the apparent intention to impose the first redundancies within a few days, added to the national sense of injustice. But I do not recall any march of the gentry of Cheltenham over the sack-



Heseltine and Major: had the fright of their lives

ing of British Telecom employees, or the decimation of the steel industry's workforce.

The real reason why Mr Major is in trouble is that he fought an election on the promise of an end to the recession, which he has failed to deliver. In the early summer, basking in the afterglow of his victory, he noted the happy stock markets and Treasury forecasts and mused about it being the best of all possible times in which to be prime minister. Confidence had been restored. The economy was on the move.

Major is in trouble because he fought the election on a promise to end the recession, but he has failed to deliver

The Maastricht treaty was in the bag. He would soon assume the responsibilities of Britain's presidency of the European Community. Later in the summer he even wondered whether the pound might overtake the D-Mark as the anchor currency of Europe. Being prime minister must have seemed almost as enjoyable an activity as watching Chelsea play football. Then everything began to go wrong. The Danes rejected the Maastricht treaty. That unleashed the dark forces within the Conservative party - the diehard Thatcherites, the anti-Europeans, the lifetime members of the Bruges Group. The markets turned downwards again. Unemploy-

ment began to touch southern families, Conservative families, and the professional classes. House prices fell further. Television comedians began to tell jokes like, "shop now while shops last". The recession seemed endless.

Mr Major, favoured for fortune until April 10, turned into that most desolate of all creatures, an unlikely prime minister. He stood firm against assaults on his close friend and heritage secretary Mr David Mellor, but Mr Mellor was driven out of office. He identi-

fied his personal authority with the defence of the D-Mark party within the ERM, only to find sterling blown out of the water a week later. He has since seemed to manacle himself to a chancellor whose own credibility has been squandered.

This sad tale has been accompanied by an extraordinary outburst of vituperation from the Conservative press, the very same gang that helped Mr Major win the election. I put this down only partly to the idiosyncrasies of particular editors; the more significant factor may be that readers, gulled in April into a belief in economic good times under the Tories, have been expressing

their disappointment. The tabloids have turned their fury onto the prime minister.

So Mr Major is on the run. Nothing he has tried so far has worked. A dogged and super-patriotic speech at the Conservative conference was decided for its absence of passages on the economy. A one-point cut in interest rates last Friday was quickly seen for what it was: an attempt to buy off Tory backbenchers who were supporting the miners. An emergency meeting of heads of EC governments in Birmingham on the same day was thus overshadowed. It was subsequently exposed as a mere PR exercise.

Now the prime minister is discovering, in a most painful and dramatic way, the true meaning of a parliamentary majority of 31. This is the second lowest Conservative majority since the war - only Churchill's 16 in 1951 was lower. Labour governments have struggled and nearly died on majorities of four (October 1974), five (1964), and six (1950) but Mrs Margaret Thatcher's great strength was bolstered by a majority of 44 in 1979, 144 in 1983 and 101 in 1987, although the latter did not save her.

A low majority gives strength to dissident backbenchers; only a prime minister willing to dare them to precipitate an election can hope to outface them. Dissidence spreads when the voters are unhappy, as they certainly are at present. Yet there is no threat of an election, let alone a Labour victory. The Labour party is caught between hypocritical outrage at the closures (Labour governments have been champion pit-closers) and a dangerous complacency about its continuing need to reform even now, while the Tories are in turmoil. As to Mr Major's hold on office - well, just for a while yesterday he had the 1922 Committee of backbenchers eating out of his hands. Only a backbench revolt greater than anything seen in the past few weeks could oblige him to resign. None is yet in sight.

What is much more likely to happen is that the government will continue to be harassed by events. Mr Heseltine was made to sweat in the Commons yesterday. He is not yet out of danger. Neither he nor Mr Major can be certain that throwing in a few hundred million pounds extra and imposing a moratorium on 31 pit closures will quell the unrest. Even putting in Lord Peter Walker to supervise may not be enough. The disquiet over the coal mines will rumble on, possibly as destructively for the government as the poll tax was for Mrs Thatcher. The cabinet will keep running from crisis to crisis. There will be no respite until, by accident or design, the recession begins to end.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Mines: private sector alternative, figures 'misleading', efficient but too costly

From Mr Simon Hughes MP.

Sir, The fast-moving events in the current political controversy concerning coal mine closures were well explained in your article answering typical questions about the issue. ("The costs of closure", October 17). However, the article failed to highlight one interesting aspect: that some private mining companies have shown an interest in taking over several of the collieries listed for closure by British Coal.

British Coal claims that the pits scheduled for closure cannot be mined profitably, but several independent mining companies, such as Wales-based Ryan, clearly disagree. British Coal should have its monopoly power to grant licences to private operators removed from it immediately. This would allow private companies to take on collieries such as Markham, Wearmouth and Hatfield, which have healthy balance sheets and viable coal stocks. In particular, the Department of Trade and Industry should provide seed corn capital to encourage management and employee buy-outs.

The UK coal industry is clearly in a secular decline but British Coal's current plans are the industrial equivalent of cutting off one's own nose to spite one's face. If BC cannot run the mines then it should allow others to take over that role.

John Major's government

has a chance to show its support for enterprise and initiative by giving miners and managers a chance to run their own pits instead of spending £1bn plus on throwing whole neighbourhoods on to the dole. Simon Hughes, Liberal Democrat natural resources spokesperson, House of Commons, Westminster SW1A 0AA

From Mr Andrew Glyn.

Sir, You reported ("The UK Economy: PM regrets anguish of unemployed", October 17) Mr Major's statement, in relation to coal closures, that "stocks are increasing by more than 1m tonnes every month, and as a result of that we have been spending £100m a month of taxpayers' money to keep the pits open". This latter figure has been used repeatedly by Mr Heseltine as his "unanswerable case" for the closures. What does it mean?

The 31 pits' operating loss over the last year totalled some £5m (figures for individual pits are given in my report, The Economic Costs of the Pit Closure Programme). The government's figure for subsidy, some 100 times larger, must be the total costs of production of these pits (roughly 2.5m tonnes a month at £40 a tonne). For this to represent taxpayers' subsidy it would have to be the case that the coal they produce was valueless.

The prime minister says that stocks are increasing by more

than 1m tonnes a month; indeed in the three months April-July total coal stocks rose by more than 1.5m tonnes a month (Energy Trends, September 1992, table 6). But there is a strong seasonal element in this, shown by a rise over the whole year to July of just over 0.5m tonnes a month. That this represents something like the underlying rate is confirmed by BC's own stock-building (that is, excluding the much more seasonally sensitive stocks at power stations etc) of 0.6m tonnes a month over the five months to end-September. This represents only one quarter of the output of the 31 threatened pits. So three-quarters of their output has up till now found a market at the going BC price.

Nor is the part of the output of the 31 pits which has been stockpiled valueless. Around half of the stockpiling can be attributed to rising net imports of coal (some 300,000 tonnes a month higher in the second quarter of 1992 than a year earlier) and there is a case for valuing additions to stocks at the world price (say £30 a tonne). Such a valuation of stocks would only imply a loss for (and thus subsidy to) the pits under threat of around £8m a month. Even if the government's statement is referring to the financing of the whole value of the stock-building (in which case it should be made clear that it does not mean subsidising operating

losses) then the figure would be some £25m a month.

It is widely accepted that the economic effects of pit closure have to be assessed by balancing any operating subsidy involved against the exchequer costs of closures - some £110m a month in the first year (including redundancy payments) and £50m on a continuing basis (unemployment benefit, lost taxation, etc). But the main point here is that the government has produced only totally misleading figures for the current financial position of the pits to justify its policy.

Andrew Glyn, fellow and tutor in economics, Corpus Christi College, Oxford

From Prof D R Myddelton.

Sir, Adam Smith said very good grapes could be raised in Scotland, and very good wine too could be made of them. But he pointed out that equally good wine could be imported much more cheaply from foreign countries.

British miners, aided by heavy capital investment, may be very efficient at extracting coal. But British coal producers have been protected for far too long from competition from much cheaper foreign imports. Tax-payers and energy users can no longer afford it.

D R Myddelton, Cranfield School of Management, Cranfield, Bedford MK43 0AL

Stealing the GATT initiative

From Dr Alan G Hallsworth.

Sir, The current round of General Agreement on Tariffs and Trade negotiations has slipped from the news. But one imagines that the state of play will probably involve US complaints that a "level playing field" is being spoiled by French farming subsidies. The US would probably prefer to see an end to unfair distortions with the French coming into line with international norms. The US could steal the initiative as a way out of this impasse were it to create a "level playing field" by remov-

ing one of its own unfair distortions. This could be done by charging its industrial and domestic users a price for gasoline that is in line with international norms (shall we say \$3 a US gallon?). I am sure that following this modest gesture, all parties would be absolutely desperate to trade internationally on equal terms!

Alan G Hallsworth, deputy director, SIRC, University of Portsmouth, Buckingham Building, Lion Terrace, Portsmouth PO1 3BE

Observance is of the essence

From Mr Adam Fergusson.

Sir, You reported that, in order to enhance subsidiarity, the European Commission wants to "devolve much responsibility for implementing EC law to member states" ("Brussels drafts plan to end EC power struggle", October 13).

That might be popular among some of them but would be an idiotic policy. In the post-1992 internal market, universal confidence that everyone is fully observing the common rules will be of the essence. Self-policing won't achieve it -

on the contrary. Although snooping can never be popular for those being snooped on (perhaps that is why Brussels is anxious to divest itself of that duty), increased, vigorous and efficient activity by the Commission's independent inspectors, backed by the Court of Justice as required, is likely alone to provide the roots of mutual trust. Otherwise, as Juvenal once put it, *quis custodiet ipsos custodes?*

Adam Fergusson, 15 Warwick Gardens, London W14 8PH

OBSERVER

Bark before bitten

Given Britain's delicate political condition at the moment Observer's pulse beat a little faster on news that The Sun, Britain's best selling newspaper, was launching "a major contribution" to the country's democratic process.

Could it be the launch of an 0898 hotline where its readers could vote on whether the PM was a goner? Better still why not upstage its rival Daily Star, which yesterday suggested that ex-BP boss Sir Peter Walters should chair a national government, with The Sun's own national reconstruction plan?

In the event, The Sun's Politicians Complaints Commission is not even its own idea. Patsy Chapman, who is editor of the News of the World and admittedly from the same stable as The Sun, first suggested it in The Guardian in July.

However, The Sun has adapted Ms Chapman's plan and instead of having a code of conduct drawn up by MPs themselves has set up its own 10-point code of practice for politicians. This includes the famous Chamfort maxim: "In great affairs men show themselves as they wish to be seen; in small things they show themselves as they are."

War hero Major General Ken Perkins, who is married to Churchill's grand-daughter and has been a military adviser to The Sun, will chair the new body. He will have a board of "commonsense" people, including a taxi driver, a solicitor and an unemployed steelworker, to vet complaints and help him rule when MPs are letting the side down.

Its deliberations will be entirely independent of The Sun and other newspapers are welcome to join. True, The Sun

will pick up the tab for the first year and the initiative has all the hallmarks of yet another of Sun editor Kelvin Mackenzie's publicity stunts. Even so it would be wrong to ignore it completely. At a time when there is concern about press invasion of privacy, The Sun intends to show politicians that it can still bite back.

Safe haven

The American University of Beirut, a favourite target for kidnappers, is topping up its staff again. The university, from where US hostages Joseph Cicippio and Tom Sutherland were snatched and where Brian Keenan once worked, is looking for a director of internal audit and deputy comptroller to shore up its depleted administration.

However, in a bid to reduce staff turnover the advert stipulates that only non-US passport holders will be considered. Meanwhile, the university's director of personnel, who knows a thing or two about the dangers of living in the Middle East, will vet applications from the safety of an office on New York's Third Avenue.

All aboard

There is a curious appropriateness to the rumour that Alan Clements is to be the next chairman of Trafalgar House. Clements, an ex-corporate bureaucrat from ICI, is an archetypal nice chap. But since he retired from ICI at the end of 1989, his every move has precipitated boardroom mayhem.

He joined Granada as a non-executive director, and the chief executive was deposed. He joined the paper-maker David S Smith and the chief executive



"Let's face it - John Major isn't what he used to be"

unexpectedly stepped down. He joined Brent Walker and George Walker was booted out and the company is being investigated by the Serious Fraud Office. He joined Mirror Group and Robert Maxwell fell into the sea. It sounds like Sir Nigel Brookes will be lucky to get out in one piece.

Given this sort of career it is hard to see how Clements can kick up a stink about Hongkong Land's understandable wish to add two of its men to the Trafalgar House board, in the absence of any other fresh faces. Rodney Leach is a seasoned corporate financier, and Sir Charles Powell has impressive political connections. Both are worthy additions to a group of non-executive directors who badly need strengthening.

Nun so lucky

A nun, who has lived for 54 years under a vow of poverty, has proved that the meek do, just occasionally, inherit the earth. Sister Josephine Contris, 71, a member of the Sisters of St. Francis order in San Francisco, initially won a \$40,000 prize in a local lottery.

Given the choice of taking the money or participating in the state lottery's televised Big Spin game show, she consulted her fellow sisters. "Go for it. Don't just take the \$40,000," was their advice. She did, and won \$1m.

Contris says she will give the money to her order with a request that it be used to support a retirement home in Santa Maria.

Berlin exeat

One has to commend Britain's diplomatic corps on its timing. Just in time for the Queen's visit to Berlin today, the British embassy is downgrading the importance of its Berlin outpost. It has announced that it intends to stop issuing visas and passports from its Berlin office from the start of November.

In future all applications will be handled by the British consulate-general in Düsseldorf, who resides 460km from Berlin as the crow flies. Somehow that does not conform with the official German position that Berlin is to become the working capital of Germany within the next five to seven years.

It sounds more as though the Foreign Office is convinced, along with a good many German politicians in the Rhineland, that parliament and the German government will remain in Bonn until well into the next decade. Düsseldorf is only 70 km down the Rhine from Bonn.

Advocate

You can't fool a Yorkshireman. A church in Bradford is currently displaying a big bright day-glo poster warning its parishioners: "Despite devaluation - the wages of sin remain the same."

Beijing Manila Singapore Penang

Paradise

Hangzhou Kota Kinabalu Shanghai

on

Kuala Lumpur Bali Hong Kong

Earth.

Fiji Bangkok Vancouver Shenzhen

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FINANCIAL TIMES

Tuesday October 20 1992

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Appointments to key bodies mark another victory for Deng Xiaoping Chinese reformers' clean sweep

By Simon Holberton in Beijing

CHINA'S economic reformers scored a virtual clean sweep yesterday when they dominated appointments to the Communist party's two main bodies, the politburo and its standing committee.

The appointments represented another victory for Deng Xiaoping, the country's 88-year-old pre-eminent leader. At the weekend the party endorsed Deng's ideas for the rapid modernisation of China and in so doing embraced deregulation and the free market.

At elections held yesterday, the politburo was expanded to 23 from 14 while its all-important standing committee, which oversees day-to-day policy, was

increased by one position to seven.

The retirement of two hardline individuals from the standing committee enabled three reformers to be appointed.

Jiang Zemin, party general secretary, and Li Peng, China's prime minister, retained their positions, as expected. They are joined, however, by Zhu Rongji, 64, the industry minister, General Liu Huaqing, 77, and Hu Jintao, 49, the former party secretary for Tibet.

Zhu is expected to be in charge of implementing economic reform; General Liu, whose appointment makes him China's highest ranking soldier, will be responsible for modernising China's army - the largest in the world.

Hu, a protégé of the late Hu Yaobang, has been appointed head of the central committee secretariat. Its five-member group includes Wen Jiabao, a supporter of deposed party leader Zhao Ziyang.

The composition of the politburo reveals further the dominance of pro-reformers versus those politicians who wanted to hasten slowly on China's modernisation.

Twelve of the 15 members outside the standing committee are new appointments, most of whom are identified by analysts in Beijing as having reformist tendencies.

There is greater representation from provincial China, where economic reform has become well rooted.

Central government ministries are also better represented, with Qian Qichen, China's foreign minister, and Li Lanqing, minister for foreign economic relations and trade, both joining the body.

Ding Guangen, Deng's bridge partner, was also appointed to the politburo and may well be Deng's eyes and ears on the council.

The new politburo is younger than its predecessor.

The odd man out in the politburo is General Liu, but diplomats in Beijing said he was one of the only soldiers capable of gaining the respect of the military.

Wheel turns full circle for Deng protégé, Page 8

Canadian separatists gain heart in row over reforms

By Bernard Simon in Toronto

GROWING prospects that Canadian voters will reject a package of constitutional reforms in next Monday's national referendum have ignited confidence among Quebec separatists hoping for an eventual breakaway by the province.

The separatists have taken courage from opinion polls showing a widening margin of voters throughout the country opposed to the package, known as the Charlottetown agreement.

Opposition is especially strong in Quebec and British Columbia. Although the results of the referendum will not be binding, the deal in practice requires the approval of Quebec and at least a clear majority of the nine English-speaking provinces to be implemented.

While Quebec nationalists insisted in the early stages of the campaign that a No vote would simply be a rejection of the terms of the Charlottetown deal, they have more recently linked a No vote to support for greater autonomy for the province.

Mr Lucien Bouchard, leader of the separatist Bloc Québécois, said at the weekend that a No victory would mark the end of attempts at national reconciliation and usher in a new era in Canadian politics.

Opposition to the agreement has grown despite overwhelming backing among the country's political leaders, organised business and trade unions.

Supporters still insist that they can make up lost ground in the final week of the campaign. But most observers now think the odds favour a No victory in at least Quebec and British Columbia.

Critics have found it easy to zero in on the defects of what is a delicate compromise between various regions and population groups. The recession and the widespread unpopularity of Mr Brian Mulroney, the prime minister, have given the opponents extra ammunition.



Flagging interest: the Canadian flag is flown upside down by the US Army at the baseball World Series in Atlanta

The reforms, aimed at keeping Quebec within the federal fold, envisage greater autonomy for all the provinces in areas such as immigration and education. They also aim to transform the Senate from an appointed to an elected body, with equal representation for all the provinces.

Western provinces, however, have balked at the enshrinement of Quebec's status as a "distinct society" within the constitution.

According to an opinion poll published yesterday, a clear majority of Canadians want Mr Mulroney to call an election or resign if the Charlottetown deal is rejected.

Mr Matthew Barrett, chairman of the Bank of Montreal, said yesterday the most unsettling implication of a No victory was the boost it would give to separatist forces in Quebec. "At a minimum, a No vote is a vote for constitutional gridlock," he said.

Serb power struggle fuels rumours of Yugoslav coup

By Laura Silber in Belgrade

SERBIAN police yesterday seized control of the Yugoslav federal interior ministry in an apparent attempt by Mr Slobodan Milosevic, Serbia's president, to wrest power from the Yugoslav prime minister, Mr Milan Panic.

The seizure reflects the intensified power struggle between Mr Milosevic on one side, and Mr Panic and Yugoslav president Dobrica Cosic on the other. It also shows that the Yugoslav government has not yet succeeded in gaining control over key federal institutions.

Since the break-up of Yugoslavia, Mr Milosevic has tried to usurp the remaining power of the old federation. He controls not only the Serbian interior ministry and Serbian paramilitary groups, but also sections of the federal interior ministry.

The new Yugoslav federal leaders have been fighting back in recent months. Mr Cosic has gained the support of top echelons within the army, while Mr Panic has been trying to strengthen the federal institutions in order to erode Mr Milosevic's power base, which is anchored in the police.

Both Mr Cosic and Mr Panic have urged Mr Milosevic to resign in order to get United Nations sanctions lifted and stop the war in neighbouring Bosnia-Herzegovina. But in the early hours yesterday Mr Milosevic demonstrated his determination to preserve his power base by ordering scores of Serbian police to enter and seal off the federal police headquarters, inside the Belgrade interior ministry. Federal officials were barred from entering the building.

The move prompted speculation that Mr Milosevic was orchestrating a coup against Mr Panic, although under such circumstances it is uncertain what role the federal army would play.

In a statement yesterday, the federal government strongly condemned the "violent seizure of the interior ministry", demanding "immediate restoration" to federal control. The statement warned that the ministry was "unable to fulfil its constitutional function which gravely threatened state security".

However, Serbian officials attempted to play down the issue, saying that the takeover of the headquarters followed a ruling by a municipal court that the federal interior ministry must abandon the building by October 15.

Nevertheless, the seizure also fuelled speculation that the Serbian police were trying to confiscate federal police archives. Following international moves towards setting up a tribunal on war crimes in Bosnia, the archives could incriminate Serb politicians.

Security around the building yesterday appeared normal although state police, who were reportedly Serbs from Croatia, were controlling the entrances.

Mr Mihalj Kertes, the right-hand man of Mr Milosevic who was sacked in August as deputy federal interior minister by Mr Panic for his support of ethnic cleansing, was seen entering the federal ministry.

Earthquake in Sarajevo, Page 2

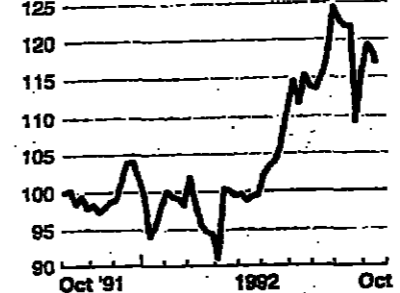
THE LEX COLUMN

The burning question

FT-SE Index: 2562.2 (-1.7)

Electricity

FT-A All-Share Index



Source: FT Graphix

The market evidently believes interest rates are still far too high to stop asset prices falling. It follows that the quality of bank loan books continues to deteriorate.

In this context the latest survey of UK bank lending from Robert Fleming and Dun & Bradstreet is hardly encouraging. High-risk corporate loans rose by £700m to £31.5bn in the first half of 1992. Banks would need £4.2bn in additional provisions to cover 30 per cent of that total. The main burden would fall on Barclays, National Westminster, Bank of Scotland and Royal Bank (whose shares have risen 3 per cent since the rate cut).

Small wonder, then, that investors are snapping up banks with high foreign currency earnings such as HSBC and Standard Chartered. But both depend heavily on the volatile Hong Kong market. The latter's profits may be boosted by currency movements but these also weaken its tight capital ratio. As for a traditionally defensive stock like Abbey National, it cannot remain unscathed indefinitely if house prices continue to fall.

Storehouse/Ikea

Mr David Dworkin, chief executive of Storehouse, must have his fingers crossed. A deal to sell Habitat to Ikea could suit Storehouse nicely even though the company does not particularly need the cash. Selling the British and French chains at anything like the mooted £50m would easily fund closure of Habitat in the US, which lost £3m last year. And though the French business is profitable, the UK has long been a headache the company could live without.

By the same token it is difficult to see what Ikea sees in Habitat. There are superficial similarities between the two chains, but they hide more than they reveal. Ikea's vast furniture barns contrast with Habitat's mix of high street and edge-of-town locations. The logistics of handling a pan-European chain with half a dozen UK outlets are also very different to managing some 70 Habitat stores. While the worst may be over at Habitat, this could be a deal which Ikea lives to regret.

If a contract is signed, Mr Dworkin can concentrate on wringing profits out of Mothercare in the no-holds-barred manner which proved so successful at BHS. Better buying, distribution, pricing, layout, management and marketing would transform Mothercare's prospects. Yet with the shares on a multiple of 27 times this year's estimated earnings, plenty of recovery is already in the price. And investors may wonder how Marks and Spencer intends to respond to the revival of BHS.

Skanska

Yesterday's warning that write-downs at Skanska will be even bigger this year than in 1991 is a sober reminder of the Swedish influence on European property markets. In one of the last big blinges of the late 1980s Swedish investors reacted to the lifting of domestic capital controls by pouring money into German, Belgian, Dutch and British real estate. They are now suffering the hangover. Many have already been wiped out; others or their bankers are well represented in the list of potential sellers waiting for the first flicker of an upturn.

Skanska certainly paid top dollar for two City developments, one of which remains tenanted while the other is just 15 per cent let. To be fair there is no indication that the company will do other than hang on to these investments, and it has the balance-sheet strength to do so. For the moment there are presumably enough headaches back home, what with extraordinary losses from unauthorised dollar speculation and mismatched loans. Bottom line: the company may be attracted by the SKR's share price given net assets of perhaps SKR90-90 per share and signs of resilience in the main contracting businesses. Assets, though, are hard to value these days, not least in Scandinavia. There is also a feeling in Stockholm that things will get worse before they get better.

UK banks

Since banks are supposed to be interest rate-sensitive stocks, they might have been expected to forge ahead after Friday's base rate cut. Instead, Barclays has fallen by 11 per cent amid renewed worries about its dividend. Lloyds is scarcely changed, National Westminster is down 1 per cent and even the highly-regarded Bank of Scotland is down 4 per cent.

Pound falls sharply as nerves persist

Continued from Page 1

The government's action gave a slight boost to share prices. The FT-SE 100 share index rose 20 points from its low of 2,562.2 to close just 1.7 lower at 2,582.2.

But the announcement failed to restore confidence in the government's handling of the economy, already damaged by the hasty nature of Friday's one percentage point cut in base rates. The market is also worried that Mr John Major, prime minister, will face a backbench rebellion in tomorrow's parliamentary debate on the coal industry.

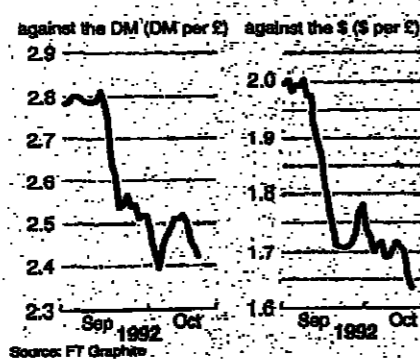
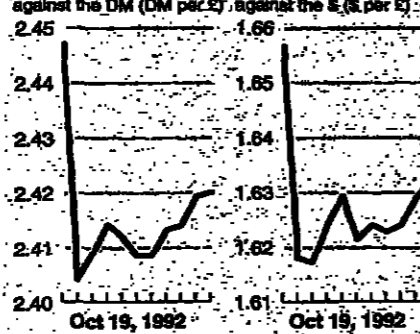
Fears about inflation and the weak pound pushed the prices of longer-dated government bonds down as investors sought shorter dated and index-linked bonds.

A £100m tranche of index-linked stock issued by the Bank of England yesterday was exhausted by lunchtime.

"People are concerned about the economic mess, there is more uncertainty about government economic policy and a creeping fear of inflation," said Mr Stephen Scott, bond analyst at Kleinwort Benson.

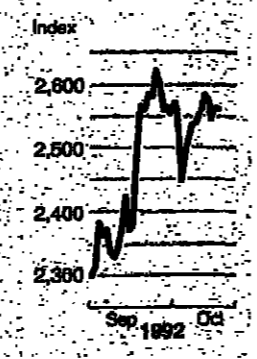
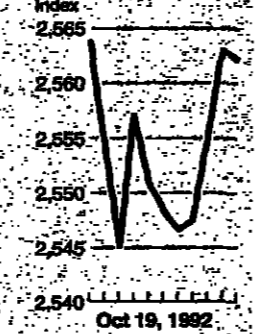
Sterling

Hourly movements against the DM (DM per £) against the \$ (\$ per £)



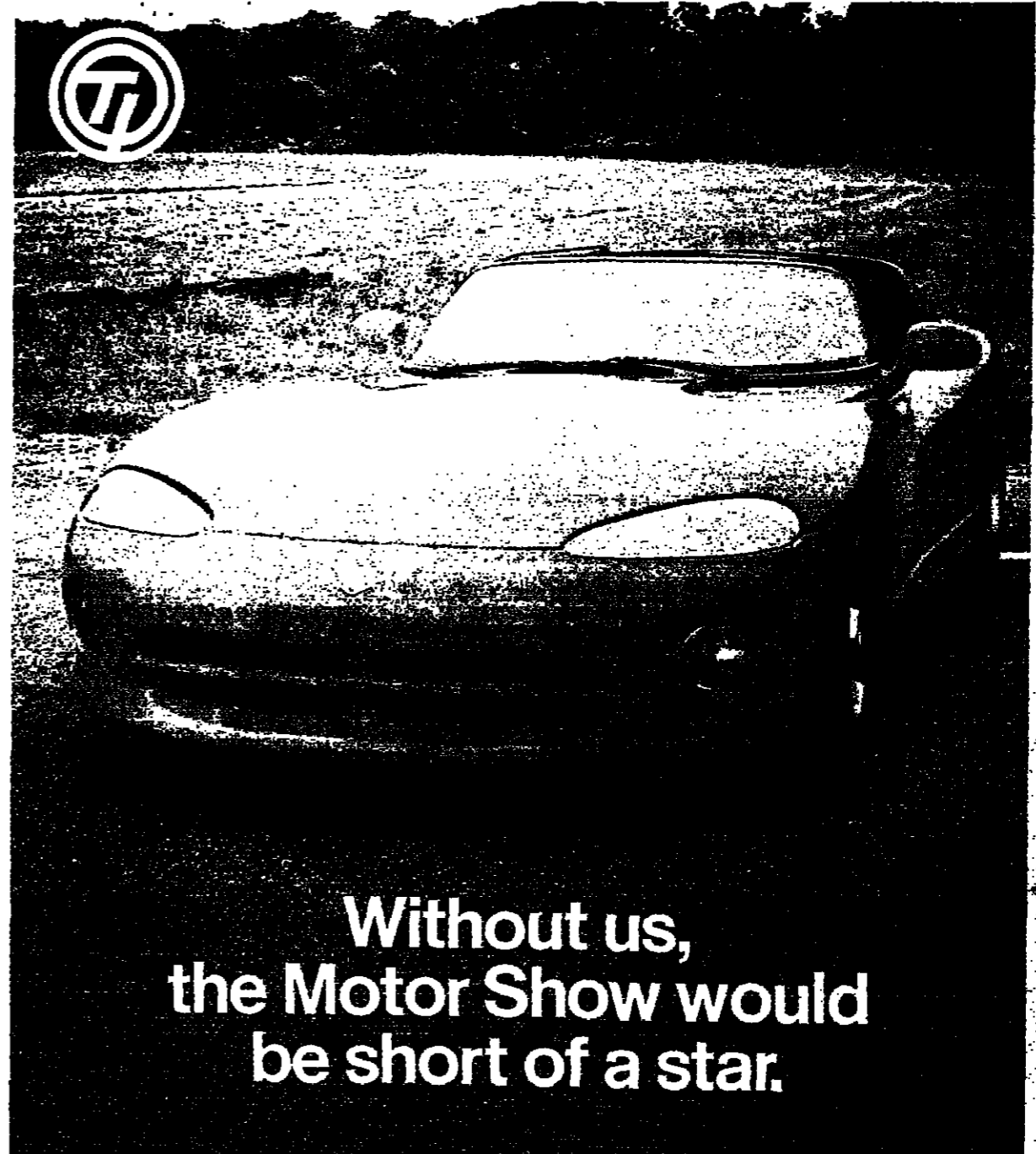
FT-SE 100

Index



World Weather

	°C	°F		°C	°F		°C	°F		°C	°F
Algeria	16	61	Boulogne	12	54	Frankfurt	10	50	Madrid	12	54
Amsterdam	10	50	Buenos Aires	18	64	Geneva	8	46	Moscow	10	50
Athens	18	64	Brussels	10	50	Glasgow	8	46	Munich	10	50
Bahia	26	79	Cairo	20	68	Hong Kong	21	70	Naples	10	50
Bangkok	28	82	Canberra	18	64	Innsbruck	8	46	New Delhi	10	50
Batavia	26	79	Cardiff	10	50	London	8	46	New York	10	50
Bombay	28	82	Chicago	10	50	Los Angeles	10	50	Nice	10	50
Buenos Aires	18	64	Cebu	28	82	London	8	46	Paris	10	50
Calcutta	28	82	Dublin	10	50	Madrid	12	54	Rome	10	50
Cardiff	10	50	Edinburgh	10	50	Moscow	10	50	Sao Paulo	18	64
Canberra	18	64	Faro	18	64	Nairobi	10	50	Seoul	10	50
Cardiff	10	50	Florence	12	54	San Francisco	10	50	Singapore	28	82
Chicago	10	50	Frankfurt	10	50	Shanghai	10	50	Sydney	10	50
Cebu	28	82	Glasgow	8	46	Stockholm	10	50	Taipei	10	50
Dublin	10	50	Hong Kong	21	70	Switzerland	10	50	Tokyo	10	50
Edinburgh	10	50	Innsbruck	8	46	Taipei	10	50	Toronto	10	50
Faro	18	64	London	8	46	Tel Aviv	10	50	Ulaanbaatar	10	50
Florence	12	54	Los Angeles	10	50						
Frankfurt	10	50	London	8	46						
Glasgow	8	46	Madrid	12	54						
Hong Kong	21	70	Moscow	10	50						
Innsbruck	8	46	Nairobi	10	50						
London	8	46	San Francisco	10	50						
Los Angeles	10	50	Seoul	10	50						
Madrid	12	54	Singapore	28	82						
Moscow	10	50	Sydney	10	50						
Nairobi	10	50	Taipei	10	50						
San Francisco	10	50	Tel Aviv	10	50						
Seoul	10	50									
Singapore	28	82									
Sydney	10	50									
Taipei	10	50									
Tel Aviv	10	50									



The wraps come off the new Dodge Viper RT/10 at the Motor Show today. To speed it from concept to production in just three years, Chrysler needed suppliers who would bring both experience and commitment to such a challenging project.

On both counts, Bundy International, a TI Group company, was up to the mark.

The awesome power of the Viper RT/10, generated by its 8 litre, 400hp, V-10 engine, puts enormous demands on its brake and fuel systems. To meet these critical demands Bundy, together with Chrysler, designed a high performance, cost-effective brake and fuel system, including its new Huron Quick-Connect™ technology, which produces real savings in both costs and assembly time.

Without them, the Viper RT/10 wouldn't be such a show-stopper.

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For further information about the TI Group, contact the Department of Public Affairs, TI Group plc, Lamborne Court, Abingdon Business Park, Abingdon, Oxford OX14 1UH, England.

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Tuesday October 20 1992



INSIDE

European broadcast satellite move for BT

British Telecommunications has made its first permanent move into the continental European broadcast market through a joint venture with AKA, a German broadcast services company. BT will now be able to compete with Deutsche Telekom for the business of broadcasters wanting satellite links from Germany. Page 30

Unidank loss increases

Unidank, Denmark's second largest banking group, is heading for a DKK4bn (\$700m) loss this year, more than double the 1991 deficit. It is raising supplementary capital from Danish institutional investors to prevent its capital adequacy ratio from falling below the country's minimum 10 per cent level at the end of the year. It also will cut staff by 1,700, or 22 per cent, over two years. Page 24

Last hope for Chrysler



The new car models bear the code-name LH and crucially have been calling them Chrysler's Last Hope. The carmaker hopes when the range is launched this week it will mark a big improvement in its fortunes and an upbeat finale for Mr Lee Iacocca, Chrysler's retiring chairman. The range has won rave reviews from the US motoring press, but it is not yet certain that motorists will be equally enthusiastic. Page 26

Hollow ring to LME celebration

Thousands of metals producers, consumers and traders are this week paying their annual homage to the most international market in the world: the London Metal Exchange. But there is a hollow ring to the celebrations. Gloom caused by a recent and sudden collapse in metals prices keeps intruding. Page 36

America pulls up the world

US equities rose on a good start to the quarterly reporting season - subsequently marred by disappointing progress reports from IBM and Philip Morris - and New York still had enough left to lead the FT-Actuaries World Index into a 1.3 per cent gain in local currency terms. But in most of the leading investment blocs, the week ended less happily than it began. Back Page

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Chief price changes yesterday

FRANKFURT (DM)	PARIS (FF)	THURSDAY (FF)
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5

LONDON (Pence)	PARIS (FF)	THURSDAY (FF)
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5
Alkermid	435	+ 22.5

Buoyant Chase profits rise 29%

By Alan Friedman in New York

A 29 per cent rise in Chase Manhattan's third-quarter net profits showed that the recovery is continuing at the big New York bank that has spent the past two years slashing costs and changing its strategy.

Chase, which has reduced its workforce by 8,000 people and reorganised itself in order to concentrate on the retail banking business in the New York area and wholesale banking globally, turned in \$176m of third-quarter

net income. This translates into earnings per share of 94 cents, compared with 79 cents a year ago.

Although the Chase results were helped by an increase in net interest revenues - from \$683m a year ago to \$698m in the third quarter just ended - the bank is still coping with higher bad debt provisions, especially related to its loan exposure in the depressed US commercial property market.

The third-quarter provision for possible loan losses was \$320m, compared with \$265m a year ago. The bank said it expected such provisions to continue at relatively high levels.

Net loan write-offs totalled \$321m, almost half the \$656m level of a year ago.

At the end of September Chase had \$7.4bn of domestic commercial property loans on its books, down from \$8.5bn a year ago. Some \$2.23bn of these loans were classified as non-performing, down slightly from \$2.36bn a year before.

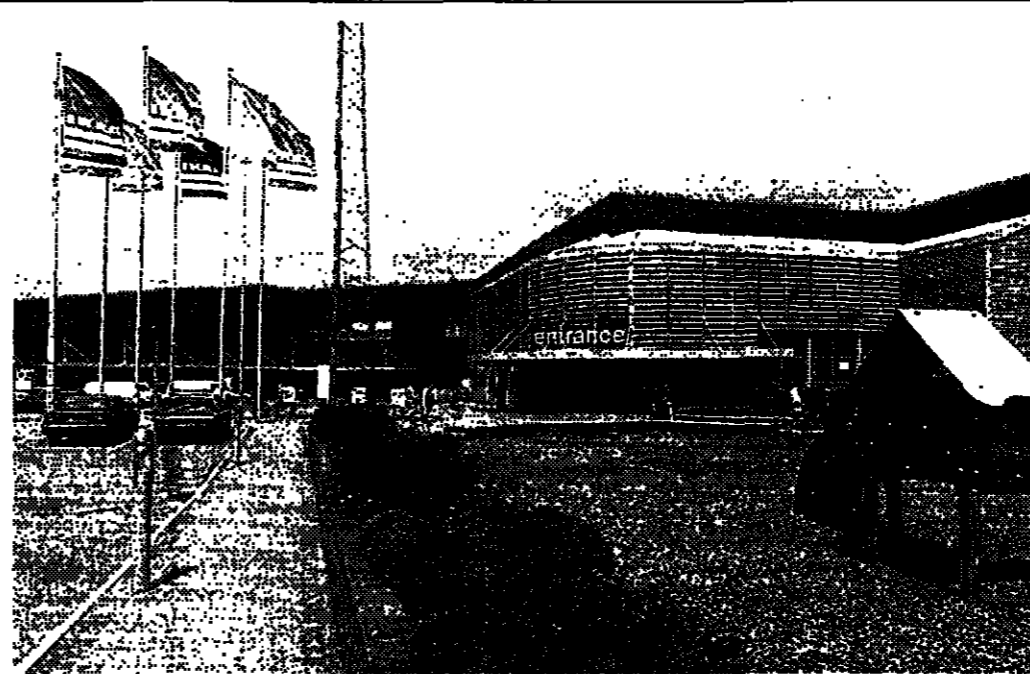
For the first nine months of 1992 Chase achieved \$470m of net profits, up from \$355m in the same period last year.

Bad debt provisions in the nine-month period were \$915m, up from \$770m in the same period of 1991.

However, net loan write-offs in the first nine months of 1992 fell to \$812m from \$1.6bn in the first three quarters of last year.

Ikea's logic furnishes a market riddle

John Thornhill describes a curious interest in Habitat



Ikea: vast blue and yellow sheds selling Orgryte sofas and Smedvik dining tables

As a rallying cry it is less than impressive. As a statement of intent it has proved remarkably effective. "We shall offer a wide range of home furnishing items of good design and function, at prices so low, that the majority of people can afford to buy them."

The words are those of Mr Ingvar Kamprad, the Swedish entrepreneur, outlining the business philosophy behind Ikea. Ikea is the privately-owned furniture retailer, which, in four decades, has grown from a single store in Sweden's backwoods to become one of the most successful international retailers in the world.

At the end of last year, Ikea ran more than 100 outlets in 25 countries, with annual sales of SKr2.3bn (\$4.1bn).

The company's vast blue and yellow retail sheds selling about 11,000 strangely named furniture products, such as Orgryte sofas and Smedvik dining tables, are a feature of the international retailing landscape.

Yet the company's remarkable expansion is due largely to organic growth.

Ikea's reported interest in buying the UK and French arms of the struggling Habitat chain, owned by Storehouse, has therefore inspired considerable curiosity, and even outright puzzlement, within the furniture retailing industry.

Mr Richard Hyman, director of Verdict, the retail consultants,

says: "The possible acquisition has no commercial logic at all. If Ikea has a spare \$50m (\$80m) to invest, I would have thought they would have done better to continue expanding what is clearly an outstandingly successful format, rather than buying a loss-making high street chain which provides very weak competition."

Such sentiments are expressed in slightly more muted form even within the Ikea Group.

The furniture company's headquarters in Denmark yesterday continued to deny all knowledge of the possible acquisition of Habitat. Its UK business was similarly baffled.

A clue to the conundrum may lie in the fact that Storehouse is conducting talks with the Ikea Foundation rather than with the Ikea Group itself. The Ikea Foundation, set up by Mr Kamprad, is the legal owner of the furniture group and is responsible for other activities, including the disbursement of awards every three years to improve the quality of life and the environment.

The idiosyncratic Mr Kamprad may therefore be conducting the discussions through the foundation without telling his colleagues in the furniture group. He has certainly expressed a personal interest in Habitat before. Three years ago, when Storehouse came under siege from the corporate raider, Mr Asher Edelman, Mr Kamprad contacted the company and asked if he could

buy the furniture chain.

Mr Michael Julien, then chief executive of Storehouse, visited Denmark to discuss the deal with Ikea, but it faded away. So did the threat from Mr Edelman.

Sir Terence Conran, the former chief executive of Storehouse and the guiding spirit behind Habitat, said Ikea then believed it could use Habitat to expand into a different segment of the UK furniture market. "They saw that Habitat could be the leading edge of Ikea giving the group an up-market high street presence," he said yesterday, emphasising that he had no knowledge of the current talks.

Castor Holdings unsecured creditors may lose C\$700m

By Bernard Simon in Toronto

UNSECURED creditors of Castor Holdings, the bankrupt Montreal-based property finance company, have been told they stand little chance of recovering any of their C\$700m (US\$560m) investment.

Castor's bankruptcy trustee gave the bad news to creditors last week.

It came in a progress report based on a preliminary review of the value of the company's assets.

These consist almost entirely of high-risk second and third mortgages and construction loans on several dozen projects in the US and Canada.

Most of Castor's funds came from European banks as well as private investors in Switzerland and Germany.

The biggest unsecured creditors include Chrysler Canada's pension fund and Credit Suisse, which has an exposure of about C\$100m.

Mr Wolfgang Stolzenberg, the German-Canadian financier who was Castor's co-founder and chairman, appeared before a Quebec bankruptcy receiver yesterday to answer a list of statutory questions normally put to the directors of insolvent companies.

The hearing was held behind closed doors and Mr Stolzenberg was not expected to shed much light on the complex inner workings of Castor.

But an official of Richter & Associates, which is acting as trustee, said the firm provided a number of extra questions to the receiver.

The Richter official said Mr Stolzenberg, who lives in London,

was expected to be interviewed in greater depth by the trustees within the next few weeks.

Castor's investors earned handsome returns in the early 1980s, when they benefited from the high interest rates on subordinated mortgages and large fees paid by developers.

They also enjoyed big tax benefits as a result of Castor channeling much of its money through subsidiaries in jurisdictions which had negotiated favourable tax treaties with Germany.

Cash flows and income quickly dried up, however, when the North American property industry sank into recession.

Much of Castor's money was invested in hotels and undeveloped land, which are especially vulnerable.

Guinness Flight Offshore Bond Funds & Bond Unit Trusts

Trafalgar to allow HK Land a seat

By Roland Rudd in London

TRAFALGAR House, the UK property, construction and engineering group, will today tell Hongkong Land that it is only willing to appoint one of its directors to the board.

Hongkong Land, the property and development group which controls 14.9 per cent of Trafalgar, wants to put two directors, Mr Rodney Leach and Sir Charles Powell, on Trafalgar's board. A Trafalgar executive said after talks with institutional shareholders its board yesterday decided it would be "more appropriate" to appoint one director from Hongkong Land.

The property and development group recently failed to increase its stake by tender offer.

Trafalgar says institutional shareholders believe two seats

would give Hongkong Land too much weight on the board.

Trafalgar's team at today's meeting with Hongkong Land will be led by Mr Alan Clements, the former ICI finance director who has replaced Sir Nigel Broadbent as chairman, and Mr Allan Gormly, formerly in charge of the engineering division, who takes over from Sir Eric Parker as chief executive.

Management changes, which include the appointment of a non-executive director unconnected with Hongkong Land, were agreed by Trafalgar's board. The other non-executive directors at Trafalgar are Mr David Howell, a senior Conservative MP and Mr Tony Ryan, chairman of GPA Group, the aircraft leasing company. Mr Clements remains a non-executive chairman. His other directorships include Mir-

ror Group Newspapers and Granada Group. His appointment is an interim measure.

Mr Simon Keswick, chairman of Hongkong Land, and Mr Henry Keswick, chairman of Jardine Matheson which controls a third of Hongkong Land, are likely to argue that Trafalgar's decision to appoint a chairman from within the board underlines the importance of bringing in two independent directors.

Skanska forecasts loss at year-end

By Christopher Brown-Humes in Stockholm

SKANSKA, Scandinavia's largest construction and property company, will incur a substantial loss this year after yesterday reporting a 77 per cent fall in pre-tax profits to SKr438m (\$78m) for the first eight months.

The group was hit by heavy losses on financial operations, but the full-year result will also reflect an estimated SKr1.5bn to SKr2bn in property write-downs and a SKr400m loss caused by the surge in Swedish short-term interest rates in September.

Mr Lars-Ove Hakansson recently stepped down as group chairman because of the currency and interest-rate losses and was replaced by Mr Percy Barnevik, chief executive of Asea Brown-Boveri.

Before property write-downs and taxes, Skanska will make a full-year profit of SKr200m compared with a SKr2.2bn profit last year. This puts it on course for a 1992 loss of more than SKr1bn after inclusion of these items.

The profits deterioration in the first eight months was almost entirely caused by losses on financial operations, as operating income was largely unchanged at SKr1.7bn.

The group suffered an extraordinary SKr518m loss due to the foreign currency deals which resulted in the dismissal of the head of its finance subsidiary, Skanska Kapitalforvaltning, last August.

It also incurred a SKr500m loss after adjusting its money-market portfolio to market levels. Since the end of the reporting period, the group has scaled back this portfolio substantially. It totalled less than SKr5bn in mid-October compared with SKr15bn a month earlier.

For the full year, the group estimates that negative net financial items will total SKr1.6bn, double last year's level, excluding the extraordinary foreign exchange loss.

Group revenues for the eight months fell to SKr19.97bn from SKr22.92bn, with a prediction that the year total would drop to SKr30.3bn from SKr34.6bn.

Skanska and Volvo also jointly announced they would bid for control of investment groups Custos and Protop in a transaction which will cost the two companies around SKr450m each.

If they succeed, they aim to sell all the assets in the companies and dissolve them.

Lex, Page 22

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Guinness High Income Bond Fund	20.2%
Guinness High Income Bond Fund	20.2%
Guinness High Income Bond Fund	20.2%

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Name (Mr/Ms/Ms) _____ Address _____

Country _____

*Based on 1/1/91. All performance figures are in % p.a. and are based on gross income. Source: Guinness Flight's published prospectus. Past performance does not guarantee a similar result. The value of investments can fall as well as rise and you may not get your money back. Please read the prospectus carefully. The coupon is valid only if it is accompanied by the Guinness Flight Global Asset Management Limited (Guinness Flight) prospectus. The coupon is valid only if it is accompanied by the Guinness Flight Global Asset Management Limited (Guinness Flight) prospectus.

INTERNATIONAL COMPANIES AND FINANCE

Small shareholders stage BAe revolt

By Paul Betts,
Aerospace Correspondent,
in London

BRITISH Aerospace yesterday faced a protest from its small shareholders who refused to approve a special resolution to reduce the company's capital as part of its financial and industrial restructuring announced last month.

Although the capital reduction was finally approved by 99.75 per cent, small shareholders forced the company to call a poll after BAe failed to win the necessary majority from the 200 shareholders at yesterday's extraordinary general meeting.

The meeting was supposed to rubber stamp the capital reduction to enable BAe to pay a 3p interim dividend following its £750m (\$1.34bn) restructuring write-offs. But it lasted more than two hours as small shareholders grilled Mr John Cahill, BAe's chairman, over the restructuring and forced a poll.

One analyst said the reaction of small shareholders was not surprising. "Too much is going on at BAe for small shareholders to understand; the City itself had trouble understanding the latest restructuring package," he said.

He was referring to the collapse of BAe's share price after the company announced last

month a first-half pre-tax loss of £129m, a £750m write-off, a proposal to produce regional jets jointly with Taiwan, the closure of the historic Hatfield manufacturing plant and a capital reduction involving cutting the nominal value of ordinary shares from 50p to 10p.

One shareholder told Mr Cahill: "The only thing that is extraordinary about the meeting is that losses of this magnitude are allowed to occur."

Shareholders questioned the proposed venture with Taiwan and asked whether other problems were expected "to crawl out of the woodwork".

Mr Cahill defended the company's restructuring and recovery strategy. Provided forecasts were maintained, he said BAe was expected to operate profitably in the second half of this year now that it had capped the losses of its 146 regional jet business.

Regional jets had been the "single most important factor in the company's financial underperformance," he said.

Mr Cahill added progress had been "good" in the negotiations with Taiwan Aerospace. BAe hopes to complete the Taiwan deal by the end of the year.

Company officials also said the company remained confident over its long-term relationship with Saudi Arabia.

Unidanmark set to raise annual loss to DKr4bn

By Hilary Barnes
in Copenhagen

UNIDANMARK, Denmark's second largest banking group, is heading for a DKr4bn (\$700m) loss this year, more than double the 1991 DKr1.7bn deficit.

The bank is raising supplementary capital from Danish institutional investors to prevent its capital adequacy ratio from falling below the country's minimum 10 per cent level at the end of the year.

It also will cut staff by 1,700, or 22 per cent, over two years as part of a programme to save DKr750m by the end of 1994.

As part of a new business strategy, the bank will withdraw from most of its international banking operations.

Welcome for Swissair plan to cut jobs and consider merger

By Ian Rodger in Zurich

SWISS stock market analysts have welcomed announcements by Swissair at the weekend that it would eliminate 1,000 jobs, slightly more than 5 per cent of its workforce, by the end of next year, and consider merging with Scandinavian Airlines (SAS) or Austrian Airlines.

"It is a sign that they are really dealing with their structural problems," said Mr Dominique Bertrand, an analyst at Swiss Bank Corporation.

In the view of many, Swissair has too small a national customer base to be a global airline and too big a base to be

a niche operator. Its personnel costs, 40 per cent of total costs, are much higher than those of most competitors.

The airline has been trying hard to cut costs, even shifting some labour-intensive activities to Bombay. Earlier this year, it made 400 administrative staff in Switzerland redundant.

It has also formed alliances with SAS and Austrian Airlines in Europe and with Delta Airlines and Singapore Airlines for intercontinental services in a bid to cut costs by sharing facilities.

But Mr Otto Loeferle, the airline's chief executive, said at the weekend that all this was

not enough in the current depressed environment.

Swissair will suffer a large loss on operations for the third year in a row this year, recording a net profit thanks only to sales of assets, mainly old aircraft.

Mr Loeferle said that the airline might merge with SAS and/or Austrian Airlines. "That is the direction things are going," he said, although he cautioned that it would not happen quickly. Laws would have to be changed first. Swiss law, for example, requires that roughly 20 per cent of Swissair shares be held by Swiss state bodies. They now hold 20.4 per cent.

Kemira declines 80% despite static sales

By Christopher Brown-Humes
in Stockholm

KEMIRA, the Finnish state-owned chemical group, yesterday reported an 80 per cent increase in pre-tax losses to FM264m (\$36.6m) in the first eight months as sales remained static at FM7.1bn.

The company said Finland's prolonged economic recession and weak markets in other countries were to blame.

In particular, it highlighted continuing pressure on its fertiliser business, which has been hit by low domestic

demand and lower prices in Europe due to cheap east European imports. It is likely to close two operations in Finland with the loss of 340 jobs.

The company says it is encouraged by increased demand for titanium dioxide and a better performance from its chemicals unit. It expects results in the final four months, helped by a pick-up in Finnish fertiliser sales and a lower relative depreciation charge, to be better than last year.

The group still says its full-

year result will be "clearly negative" and may equal last year's FM522m loss. Sales for the whole year are estimated at FM11bn.

NESTE, the Finnish state-owned oil and petrochemicals group, suffered a loss of FM914m (\$196m) for the first eight months, its first deficit since 1986.

The result compares with a FM388m profit in the same period in 1991. Sales rose marginally to FM36.4bn from FM36.1bn.

The group said the downturn in the world economy had an

impact on its main oil refining, petrochemicals and plastics activities.

Neste Oil, the group's largest business area, boosted sales to FM29.7m from FM29.5m, but profits were hit by lower international refining margins and inventory losses.

The group's figures were also affected by lower petrochemical and plastics prices and by the impact of weaker freight rates on its shipping division.

Neste said its operating result was likely to hold steady over the last four months of the year.

Metsä-Serla reduces deficit 53% to FM169m

By Robert Taylor
in Stockholm

METSÄ-SERLA, the Finnish forestry group, reported a FM169m (\$36.26m) loss for the first eight months of the year. This was a 53.6 per cent improvement on the FM364m deficit in the same period of 1991.

Net sales improved by 2.2 per cent to FM5.03bn from FM4.92bn, while its operating loss was FM514m, compared with FM529 for the same period of last year. There was a loss of FM21.75 a share compared with a FM41.30 loss for the January-August period of 1991.

The operating margin was FM395m, 13.6 per cent of net sales, which was an improvement on the FM498m operating margin and 10.1 per cent of net sales for the first eight months of last year.

It added that an estimated FM1.74bn of the consolidated balance sheet was at risk as a result of the floating of the markka on September 8 and estimated the increase in Finnish markka equivalents of foreign currency net income would offset the increase in net liabilities within about six months.

Océ-van der Grinten cuts forecast

By Ronald van de Krol
in Amsterdam

OCE-VAN DER GRINTEN, the Dutch photocopier and office equipment manufacturer, yesterday forecast a 15 per cent decline in full-year net profit, a downward revision of earlier projections, prompted by an unexpected 16 per cent decline in third-quarter net profit.

The company, which had projected a rise in results for 1991-1992 ending December 31, said net profit in the three months to August 31 dropped to F118.8m (\$11.4m) from F122.5m a year earlier. Sales were up 3 per cent at F1641m.

It blamed the continued weak state of the economy in most of its main markets, as well as the rise of the guilder against the dollar. In the first half, Océ had reported an 8 per cent rise in net profit.

News of the decline caused Océ's shares to fall sharply on the Amsterdam Stock Exchange, where they closed down 19 per cent at F138.50 from F147.50 on Friday. Océ is the first large Dutch company to release its third-quarter figures, with most others due to report in late October and early November.

The figures mean Océ's net profit in the first nine months was virtually flat at F170.0m.

Paribas sees little impact in Ciments Français crisis

By William Dawkins in Paris

PARIBAS, the French banking and investment group, expects only a limited impact from the financial crisis at Ciments Français, its former cement-making subsidiary, according to Mr André Levy-Lang, the chairman.

The Paribas share price has fallen sharply this month on the revelation that Ciments Français had made losses believed to run to hundreds of millions of francs on off-balance sheet financial dealings. Yesterday, Paribas' share price rose by FF1.6 to FF311.

Last April, Italcementi, the Italian building materials group, agreed to pay FF16bn

(\$1.19m at current rates) for a controlling stake in the already debt-laden Ciments Français.

Mr Levy-Lang also revealed that Paribas's financial trading is weaker in the current six months than it was in the first half of the year. In particular, there had been a sharp drop in the Ecu bond market since the Danish vote against EC monetary and political union in June. However, the impact on Paribas of the recent currency market turmoil was limited.

Last year, Paribas made its first ever loss, FF184m, as against a FF12.54bn net profit in 1990, reflecting intense competition in French banking and provisions for the value of its property investments.

German minister agrees to takeover of Minol

THE takeover of the east German oil company Minol by a consortium including the German steelmaker Thyssen and the French oil company Elf-Aquitaine, has been approved by Mr Theo Waigel, the German finance minister, Reuters reports from Bonn.

The finance ministry said the takeover would secure around 7,000 jobs in eastern Germany.

The Federal Cartel Office, which must make a final ruling on the venture, said it had no preliminary reservations.

Mr Joachim Gruenewald, state secretary in the finance ministry, said: "With planned investment of around DM6bn (\$4.20bn) ... this privatisation

is one of the biggest planned for east German industry."

Under the agreement reached with the Berlin-based Treuhand privatisation agency, the Elf-led consortium pledged to invest at least DM4bn. Should it fail to do so, it would become liable to penalties, the ministry said.

The core of investment would go towards building a new oil refinery in Leuna in east Germany, with an annual capacity of 10m tonnes of crude oil, for DM4.3bn.

A Treuhand agency spokesman would neither confirm nor deny weekend press reports that claimed the agency had paid the consortium DM2.2bn to purchase Minol.

Hafslund Nycomed buys Spain's Laboratorios Leo

By Karen Fosell in Oslo

HAFSLUND Nycomed, the Norwegian group best known for its X-ray imaging products, has announced the acquisition of family-owned Spanish pharmaceuticals company Laboratorios Leo for Nkr171m (\$28.45m).

The acquisition was made through its Nycomed Imaging subsidiary, which intends to build a sales and distribution network in Spain.

Nycomed Pharma, another

Hafslund subsidiary, will utilise Laboratorios as a channel through which to sell its products. "The Spanish company gives Nycomed Pharma a presence in an important European market for pharmaceuticals, which enables a future introduction of (Nycomed Pharma's) proprietary and/or licensed products in the Spanish market," Hafslund said.

In 1992, Laboratorios expects to achieve good profitability on estimated sales revenue of Nkr120m, Hafslund said.

CREDISUEZ

Meeting on October 7, 1992 under the chairmanship of Mr. Bernard Egloff, the Board of Directors reviewed Group operations and approved financial statements for the first six months of 1992.

While consumer lending, factoring, life insurance, and financial management services generated satisfactory growth in both revenue and earnings, the severity of the property-market crisis sharply curtailed profits at Banque La Hénin, because of the bank's commitments to real estate professionals.

BUSINESS VOLUME

Outstanding customer loans rose to FF 77.97 billion, up 8.2% from June 30, 1991. Total assets amounted to FF 100 billion, versus FF 90.05 billion a year earlier. These figures now include Credisuez's 50% interest in Factofrance Heller.

New lending by Credisuez Group subsidiaries in the first half of the year declined 3% from the comparable period of 1991, to FF 27.3 billion. The decrease is attributable to loans to real estate developers, which dropped by 47%. On the other hand, volume was on the rise for factoring, consumer lending, and loans to homebuyers.

At the same time, La Hénin Vie and Fimagest recorded significant increases in their funds under management, which climbed by 39.5% and 10.7% respectively.

EARNINGS AND STOCKHOLDERS' EQUITY

The Credisuez Group's first-half revenues totaled FF 2.07 billion, up 22%. Gross operating income amounted to FF 773 million, versus FF 586 million a year earlier. Consolidated provisions amounted to FF 1.38 billion, compared with FF 334 million in the previous first half. The higher figure is due mainly to Banque La Hénin's FF 970 million in provisions on loans to real estate developers and renovators.

The Credisuez Group's consolidated income for the six months ended June 30, 1992 totaled FF 162.8 million, versus FF 156.2 million for the year-earlier period. This figure includes an exceptional profit of FF 753.2 million, due mainly to the Banque La Hénin Group's sale and leaseback of a headquarters office building.

Consolidated Net Income for the Six Months Ended June 30, 1992 (after minority interests)	FF millions	Change from First-Half 1991
CREDISUEZ	162.8	+ 4.2%
Banque SOFINCO Group	101.8	+ 19.8%
Banque LA HÉNIN Group	6.1	- 90.8%
FACTOFRANCE HELLER	34.0	+ 36.0%
FIMAGEST	12.0	+ 33.3%
LA HÉNIN VIE	15.7	+ 24.6%

Credisuez stockholders' equity totaled FF 3.39 billion, versus FF 2.56 billion a year earlier. Overall equity, including minority interests in subsidiaries and subordinated debt, amounted to FF 5.93 billion, up 41% over the past twelve months and 30.6% since the beginning of the year, in accordance with the Company's program to bolster equity.

FUTURE PROSPECTS

As the Board of Directors noted when it approved the 1991 financial statements, prospects for the present year are shaped by lackluster economic conditions and the intensity of the crisis affecting the property market.

Despite all the pressures currently observed in financial markets, Group subsidiaries Banque Sofinco, Factofrance Heller, Fimagest, and La Hénin Vie should meet their respective growth targets and sustain satisfactory earnings gains.

Nevertheless, the continued deterioration of the real estate market should affect the Banque La Hénin Group's full-year accounts, and as a result, those of Credisuez.

Credisuez, together with its sole stockholder, Compagnie de Suez, is examining the actions resulting of the real estate situation's impact on Banque La Hénin which will be taken before the end of this year.

U.S. \$200,000,000

Compagnie Financière
de Crédit Industriel et Commercial
Floating Rate Notes Due 1997

Notice is hereby given that the interest payable on the relevant Interest Payment Date, November 16, 1992 for the period May 15, 1992 to November 16, 1992 against Coupon No. 15 in respect of US\$50,000,000 of the Notes will be US\$1,348.75.

October 20, 1992, London
By: Citibank, N.A. (Issuer Services), Agent Bank

CITIBANK

£350,000,000

HALIFAX
BUILDING SOCIETY
Floating Rate Notes 1996

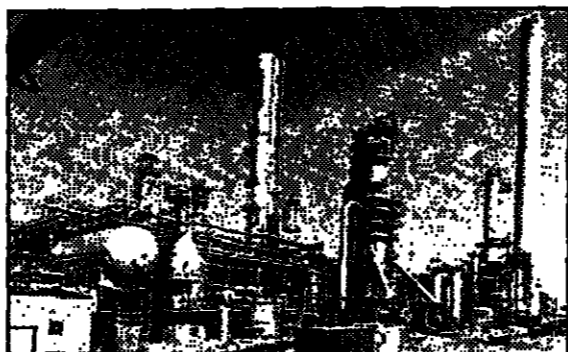
Interest Rate 8 7/8%
Interest Period 15th October 1992 to 15th January 1993
Interest Amount due 15th January 1993 per £100,000.00 Note £ 222.12
£50,000.00 Notes £11,106.00

Credit Suisse First Boston Limited
Agent

To the Holders of
Stitching Restructured
Obligations Backed by
Senior Assets 2 (ROSA2)

Pursuant to the Indenture dated as of January 10, 1992, between the Parent and State Street Bank and Trust Company, as Trustee, notice is hereby given that for the interest Accrual Period October 15, 1992 through January 14, 1993, the rates applicable to the Secured Senior Floating Rate Notes and Secured Senior Subordinated Floating Rate Notes are 4.0875% and 4.7875% respectively.

OIL & GAS INDUSTRY

The FT proposes to publish this
survey on
3RD NOVEMBER 1992

It will be of special interest to nearly 51% of the UK's senior businessmen who have decision making responsibility for raw materials and chemicals. Additionally the survey is being linked to the FT conference on the European Petroleum and Gas Industry, the Petrochem '92 and Holland Offshore '92 exhibitions and will be distributed at these events.

If you want to reach this important audience,
please call Bill Castle
Tel.: 071 873 3760, Fax: 071 873 3062

HMC MORTGAGE NOTES 5 PLC

£150,000,000
Class A
and
£7,500,000
Class B
Mortgage Backed Floating Rate
Notes due July 2030

Notice is hereby given that for the interest period from October 15, 1992 to January 15, 1993 the Class A Notes and Class B Notes will carry interest rates of 8.5% and 8.625% respectively. The interest payable on the relevant interest payment date, January 15, 1993 for the Class A Notes will be £2,292.05 and for the Class B Notes will be £2,477.77 per £100,000 nominal amount.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank

October 20, 1992

MAJOR REAL
ESTATE
OPPORTUNITY -
UNITED KINGDOM

Commercial property company (Retail and Industrial) with assets over £20 million and with majority A2 tenants producing over £2 million per annum seeks corporate or institutional Equity Partners to take advantage of further opportunities. Minimum stake £250,000 up to £5 million in return for shares in Group and possible Directorship. Significant rewards for shareholders within 3 years with Annual Dividend cover. Initial enquiries to Box A4566 Financial Times, One Southwark Bridge, London SE1 9HL

PNC FINANCIAL CORP.
NOTICE OF ADJUSTMENT IN
CONVERSION RATE
Holders of
8 1/2% Convertible Subordinated
Debentures Due 2005
Issued by Citicorp Fidelity Corporation

The Debentures were issued under an Indenture dated as of March 20, 1985 between Citicorp and Morgan Guaranty Trust Company of New York, as Trustee. The obligations of Citicorp under such Indenture were assumed by PNC Financial Corp. ("PNC Financial") in connection with PNC Financial's acquisition of Citicorp on February 27, 1987. As a result, the Debentures are convertible into common stock of PNC Financial. At the present time, the price of PNC common stock to be delivered upon conversion is \$28.57.

On October 1, 1992, the board of directors of PNC Financial Corp. approved a two-for-one split of the common stock payable November 16, 1992 to shareholders of record at the closing stock on October 22, 1992. As a result of the stock split, the price of PNC common stock to be delivered upon conversion of each Debenture will be adjusted to \$14.28 per share effective October 22, 1992.

Mezzanine Capital
Corporation Limited

Notice to the holders of the fully paid Bearer Depositary Receipts ("BDRs") evidencing Participating Redeemable Preference Shares of US 1 cent each ("Shares") of Mezzanine Capital Corporation Limited (the "Company")

Notice of Dividend

NOTICE IS HEREBY GIVEN to the holders of the BDRs that the Company has declared a final dividend for the financial year ending 31st May, 1992 of US\$0.4718 per Share. The BDRs are denominated in multiples of units ("Units"). Each Unit currently comprises 13 Shares. The dividend is, therefore, equivalent to US\$6.13 per Unit.

The Company will not be making a capital repayment on this occasion.

Payment of this dividend will be made, subject to receipt thereof by Chemical Bank (Guernsey) Limited ("the Depositary"), against surrender of Income Coupon No. 17 (INC No. 17), at the specified office of the Depositary or of any of the Paying Agents (set out on the reverse of the BDRs and at the foot of this Notice), at any time on or after 21st October, 1992.

Payment will, in each case, be made, subject to any laws and/or regulations applicable thereto, by dollar cheque drawn upon, or at the option of the holder of the relevant Coupon, by transfer to a dollar account maintained by the payee with, a Bank in New York City.

Copies of the Company's Annual Report may be obtained from the Depositary and Paying Agents.

Depositary and Principal Paying Agent
Chemical Bank (Guernsey) Limited,
Albert House, Albert House, PO Box 429,
South Esplanade, St. Peter Port, Guernsey, Channel Islands

Paying Agents
Bankers Trust Luxembourg S.A.,
14 Boulevard Roosevelt, Luxembourg, Grand Duchy of
Luxembourg
Chemco Leasing GmbH,
Bockenheimer Landstrasse 51-53,
D 6000 Frankfurt-am-Main 1, Germany
Chemical Bank,
The Adelphi, John Adam Street, London WC2N 6HT
Morgan Guaranty Trust Company of New York,
14 Place Vendôme, 75001 Paris, France

St. Peter Port, Guernsey
Dated 20th October, 1992
By: Chemical Bank (Guernsey) Limited
Depositary

FOKUS Bank A/S

(Incorporated in the Kingdom of Norway with limited liability)

U.S.\$30,000,000
Floating Rate Subordinated Notes due 1997.

Holders of Floating Rate Subordinated Notes of the above issue are hereby notified that for the interest period from 21st October, 1992 to 21st January, 1993 the following information is relevant:

1. Rate of Interest: 5.25% per annum
2. Coupon Amount payable on Interest Payment Date: US \$134.17 per US \$10,000 Nominal
3. Interest Payment Date: 21st January, 1993

Agent Bank
Bank of America International Limited

INTERNATIONAL COMPANIES AND FINANCE

Blockbuster diversifies into music

By Nikki Tall in New York

BLOCKBUSTER, the expansion-minded US video rental chain which owns the CityVision group in the UK, yesterday combined news of a move into the music retailing business via a \$185m purchase of two store chains with a third-quarter profits increase of 50.9 per cent after-tax.

Blockbuster, based in Florida, said it was buying the Sound Warehouse and Music Plus retail operations from companies controlled by Shamrock Holdings of California.

Shamrock is the acquisitive investment firm controlled by

Mr Roy E. Disney, one of the Walt Disney descendants.

The two chains take in 336 stores and are described as being "amongst the largest specialty retailers of prerecorded music in the US".

The purchase is being made through a mixture of cash and shares, and Blockbuster said yesterday that it anticipated issuing around 5m new shares to fund the deal.

Mr Wayne Huizenga, Blockbuster's chairman, claimed the relatively large size of the stores being acquired would allow Blockbuster to add "complementary entertainment products" - a first step in

developing "our entertainment store of the future".

On the profits front, Blockbuster said that third-quarter earnings after tax were \$41.3m, compared with \$27.4m a year earlier. Sales were 24 per cent higher overall at \$283.7m, and earnings per share increased from 39 cents to 50 cents.

Some of the growth reflects Blockbuster's heady expansion, and sales on a same-store basis increased more modestly.

Blockbuster stripped out the Summer Olympics and political convention periods - when, presumably, video usage was disrupted - and said that

underlying same-store revenues rose by 7 per cent, year-on-year, in the third quarter.

Cox Enterprises, the Atlanta-based media group which is underwriting the \$36m investment costs of UK Gold, the new satellite television channel, is looking at the possibility of a wide range of investments in Britain, writes Raymond Snoddy.

Cox, with turnover of \$2.23bn last year, is making the UK its first base in plans for European expansion. The company says it is looking at cable television ventures in the UK and considering other media investments.

Nigerian bank is declared insolvent

NATIONAL Bank of Nigeria (NBN), the country's oldest indigenous bank, is insolvent and needs about N2bn (\$102m) to stay alive, Reuter reports from Lagos.

The Nigerian Deposit Insurance Corporation, an independent guarantee fund covering bank failures, said yesterday: "It is completely insolvent. We have given the owners a task force report."

Banking sources do not expect the cash to be found and believe NBN, owned by four southern states, will close.

CRA makes Mt Kare sale offer

By Bruce Jacques in Sydney

CRA, the Australian mining company, has offered to sell its 51 per cent stake in the troubled Mount Kare alluvial gold mine in Papua New Guinea.

Mr Mark Rayner, the CRA executive responsible for Papua New Guinea (PNG), confirmed yesterday that he had made the sale offer last week in discussions with Mr Masket Langallo, PNG's mining and petroleum minister.

Mr Rayner said CRA effectively had two conditions on any mine handover to PNG. One was that the sale would only be made to the rightful

land owners and the other was that CRA retained secure exploration title to Mt Kare's hard rock mineral resource.

CRA reportedly plans to offer participation in any hard rock exploration programme at Mt Kare to partners in the country's Porgera gold consortium.

CRA's sale offer has come amid an intensified power struggle between more than 6,000 groups of competing land owners at Mt Kare. But reports of the offer in the Australian press on Monday brought a stinging response last night from Mr Palas Wingti, PNG prime minister.

Mr Wingti accused "vested interests" of starting a media campaign aimed at diverting his government from a review of "iniquitous agreements" over the country's mineral resources.

"The activities of one or two of the major Australian-based interests here now in Papua New Guinea in seeking to divide or disadvantage our people over resource projects amount to a threat to our sovereignty," Mr Wingti said.

"CRA and Pacer should be comfortable in this country as long as they have a long-term commitment and are not here to rip profits out quickly and leave just as quickly," he said.

Cummins underlines return to profitability

By Karen Zagor in New York

CUMMINS Engine, the world's biggest independent manufacturer of diesel engines, yesterday underscored its return to profitability by turning in third-quarter net income of \$17.6m, or 90 cents a share, including a one-time gain of \$3.6m.

A year earlier, Cummins suffered a net loss of \$11.5m, or 94 cents. Sales advanced 6 per cent in the latest quarter to \$908.6m from \$850.9m.

Cummins' balance sheet has improved steadily this year,

thanks to its cost-cutting efforts and a revival in key markets.

For the first nine months, net income was \$48.6m, or \$2.60, on sales of \$2.73bn, compared with a net loss of \$11.5m, or \$1.20, on sales of \$2.54bn in the same period of 1991.

Mr Henry Schacht, chairman, said: "The company's third quarter results were achieved despite economic uncertainty and seasonal shut-downs by our major customers." Earnings had benefited from cost-cutting, he added.

Sentrachem scores 15% earnings rise

By Philip Gawth in Johannesburg

LOWER finance charges helped Sentrachem, one of South Africa's largest chemical groups, record a 15 per cent rise in earnings for the year to August.

It achieved the advance despite trading conditions described by Mr John Job, managing director, as "the worst in the group's history". He said the group had profited from focusing on its core businesses and maintaining strict operational discipline.

Turnover rose by 6.9 per cent to R2.43bn (\$849m) from R2.27bn, and operating profits advanced by 5.9 per cent to R226.5m from R213.9m.

Lower capital expenditure and improved asset manage-

ment saw net finance charges drop by 23.3 per cent to R51.4m from R106.1m. This was sufficient to offset a 40 per cent increase in tax to R48.3m from R30.2m, and lift attributable earnings to R71.6m from R62.1m.

The dividend was lifted to 20 cents a share from 18 cents, on a rise in earnings to 62 cents a share from 53.8 cents.

Mr Job said all divisions had compensated for the weak domestic market through exports, which accounted for 11 per cent of turnover.

He added that, while no upturn in economic conditions seemed likely in the short term, he expected the group to maintain earnings in the year ahead.

Difficult environment constrains Holdains

By Philip Gawth

A SHARP deterioration in the business climate in the second half hampered earnings growth at Holdains, the paper and packaging company in South Africa's Mailak group, in the year to August 31.

Although turnover rose by 19 per cent to R2.32bn (\$811m) from R1.95bn, the squeeze on margins saw operating profits rise by only 12 per cent, to R193m from R173m. Part of this improvement was attributable to the consolidation of Carlton Paper Corporation's results for the first time.

Attributable earnings were 3 per cent higher at R84.8m compared with R82m, but a rise in the number of shares in issue saw earnings per share fall to

349 cents from 358 cents. The dividend was maintained at 121 cents a share.

Mr Ian Willis, chairman, said that, on a directly comparable basis, turnover had risen but operating profits had fallen due to reduced margins. He said the group had improved market share in some sectors despite a tough environment.

The group, for the first time, disclosed divisional contributions to performance. The largest contributor was Kohler, the paper packaging arm, with a 36 per cent contribution to operating profits.

Mr Willis did not offer a profit forecast, noting only that economic conditions were not expected to improve and "demand for the group's products will remain depressed."

News Corp says debt plans will not affect strategy

By Bruce Jacques

NEWS Corp, the Australian-based international media group, said yesterday that the cut in its public offering of senior debt securities to US\$850m from US\$1bn, announced last week, would not impact on its overall financial strategy including a recent global offering of 40m shares.

"The net proceeds of the company of the debt and

equity offering will be not less than US\$1.5bn," News Corp said. "The company intends to use all of the proceeds of the equity and debt offerings, together with the net proceeds of the US\$1.5bn sale of the San Antonio Express News, to repay bank debt."

It added that with completion of the offerings it "expects to refinance its bank obligations, to extend maturities and reduce its costs of borrowings."

Arnotts advises against Campbell's stake offer

ARNOTTS, the Australian biscuit-maker, yesterday said the A\$9.50-a-share bid by Campbell Soup to increase its holding from 32.9 to 50.1 per cent, was too low, Reuter reports from Sydney.

Mr Bill Purdy, Arnotts chairman, said: "It does not reflect the substantial premiums paid in recent years for food companies by major international groups, nor does it reflect adequately Arnotts' pre-eminent market position, strong brands, fine products and potential."

He advised shareholders to take no action over the offer.

The bid values Arnotts at A\$1.2bn (\$850m). Its shares closed at a sharp premium to the offer price at A\$9.15, up 5 cents from Friday's close.

Mr Purdy said Arnotts had yet to receive formal offer documents but the initial view of its advisers was that the bid was too low. He said Arnotts was the world's seventh-largest biscuit company and had the technology and strategy to build its products in Asia.

"Clearly, Arnotts shareholders are entitled to an offer price which reflects this potential," Mr Purdy said.

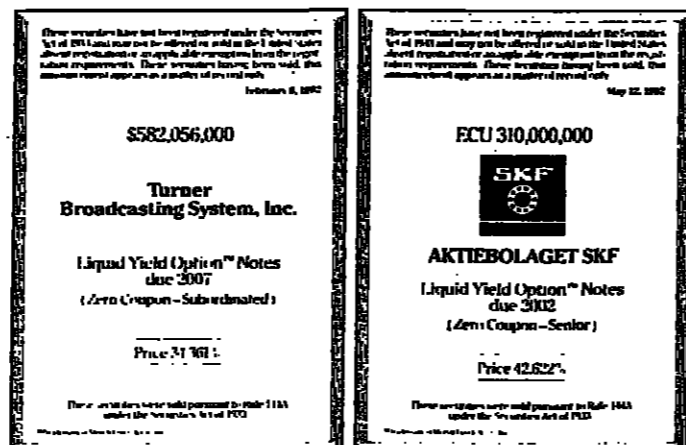
Under Rule 144A, companies and governments worldwide can unlock an important group of U.S. institutional investors. Merrill Lynch is the key.

The U.S. Securities and Exchange Commission's Rule 144A allows worldwide issuers of debt, equity and convertible securities to tap U.S. qualified institutional investors without the requirements of traditional SEC registration. In the short time since Rule 144A has been in effect,



Merrill Lynch has demonstrated the depth of its expertise by raising equity capital in the institutional marketplace for a number of leading corporations both internationally and

in the U.S. with speed and simplicity. At Merrill Lynch, you'll find a thorough understanding of the rule's benefits along with ready access to a pool of qualified institutional buyers. Rule 144A can be an effective tool that



should not be overlooked when seeking to raise equity capital. Our clients choose Rule 144A for its convenience. They choose Merrill Lynch for its outstanding capabilities.



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A tradition of trust.

INTERNATIONAL COMPANIES AND FINANCE

Publishing division boosts Time Warner results

By Alan Friedman
in New York

TIME WARNER, the leading US media and entertainment group, yesterday unveiled a solid advance in its third-quarter operating earnings, but incurred a \$152m loss after the payment of dividends on preferred stock.

The stock was issued at the time of the 1989 merger of Time and Warner.

The company chose to highlight its third-quarter net profit of \$8m, which compares with a \$62m net loss a year ago. But Time Warner's need to continue paying special preferred stock dividends resulted in the ultimate \$152m loss, or 41 cents a share, although this has been reduced from the \$211m loss or 66 cents of a year ago.

Operating profits were \$303m, up from \$218m in the

same period last year, while total revenues were \$3.2bn, up from \$2.9bn.

Mr Gerald Levin, co-chief executive, said despite continued sluggishness in the world economy, Time Warner had posted "three straight quarters in which all five of our divisions showed increases in their results".

Fourth-quarter results are likely to benefit from a worldwide book, record and video campaign on behalf of the new, sexually explicit products being launched by Madonna, the pop star.

The publishing division achieved \$64m of operating income before depreciation and amortisation, compared with only \$1m a year ago. The music division earned \$122m on the same basis, compared with \$115m.

Filmed entertainment was

almost unchanged at \$121m, against \$120m, while the Home Box Office (HBO) cable programming business earned \$4m, up from \$47m. The cable operating division earned \$25m, against \$22m.

Time Warner's operating income for the first nine months of 1992 was \$326m, up from \$782m. Net profits were \$18m, compared with a \$14m loss in the same period last year.

The group's loss after paying dividends on preferred stock was \$449m in the first nine months, down from \$585m.

On Wall Street, Time Warner's share price was 3% higher at \$23.

McGraw-Hill, the media and financial services company, lifted third-quarter net earnings by 11 per cent to \$61.1m. Revenues were 8.8 per cent higher at \$332.7m.

Production gains lift American Barrick

By Nikki Tait in New York

AMERICAN BARRICK, the US gold producer which last year had abortive merger talks with Newmont Mining, yesterday reported after-tax profits of \$49.5m in the three months to end-September. This compared with \$38.2m in the same period a year earlier.

Revenues were up from \$82.4m to \$143.5m, while earnings per share increased from 20 cents to 35 cents.

American Barrick has now reported after-tax profits of \$109.4m in the first nine months of 1992, against \$68.4m in the same period of 1991.

The company said gold production totalled 836,711 ounces in the nine-month period of 1992. This represents a substantial increase on the 595,524 ounces seen in the same months of 1991, and was attributed to a 66 per cent increase in production at the Goldstrike Mine in Nevada.

American Barrick also said it had realised an average price of \$428 an ounce for its gold sales this year, compared with the Comex average gold price of \$346 - reflecting the company's hedging programme.

It predicted that it should meet its 1992 production target of 1.2m ounces, with fourth-quarter results improving further.

The shares rose 5% to \$30.75.

Cray Research cuts

CRAY Research, the US supercomputer manufacturer, is to restructure its operations with the loss of about 650 jobs, writes Louise Kehoe in San Francisco.

It will take a \$40m fourth-quarter charge but expects to remain profitable for the year. It expects to save about \$50m in 1993 as a result of the cost-cutting.

Chrysler gives its image a new shine

Martin Dickson detects an upbeat mood at the No 3 US carmaker

THE NEW car models bear the code-name LH, and cruel wits have been calling them Chrysler's Last Hope. But when the mid-sized sedans are formally launched this week they will mark a big improvement in the fortunes of America's third-biggest automobile group and an upbeat finale for Mr Lee Iacocca, Chrysler's retiring chairman.

For the LH range, which will be sold under the names Chrysler Concorde, Dodge Intrepid and Eagle Vision, has won rave reviews from the US motoring press for its sleek, original design and extremely roomy interiors. "The Second Coming of Chrysler," trumpeted Automobile Magazine.

It is not yet certain that motorists will be equally enthusiastic, but the early signs are promising - as well they need to be. The LH is financially stretched Chrysler's most important launch in years and will give a much-needed lift to its tired car line-up.

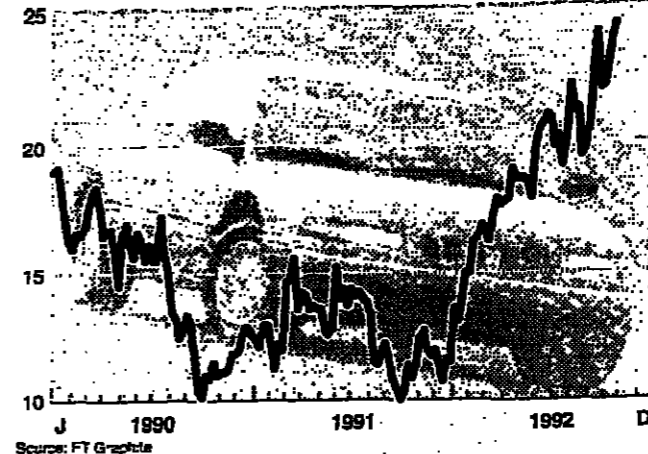
It will be 1993 before the range has an appreciable impact on the profit and loss account, but the positive psychological effect has been much more immediate - both within the company and on Wall Street, where Chrysler's shares have doubled in value over the past year.

And the LH models form only one plank in a multi-year roll out of new Chrysler vehicles. This started last spring with a top-of-the-range Jeep, which is selling well, and will end in 1995 with a revamped mini-van. Chrysler pioneered mini-vans in the 1980s and still holds almost 50 per cent of the US market, despite formidable competition.

The upbeat mood is a sharp contrast to two years ago, when Mr Iacocca, the man who masterminded the company's escape from near bankruptcy at the start of the 1980s, was under fire for diversifying into non-automotive businesses (since sold off) and failing to develop quickly a new model

Chrysler

Share price (\$)



Source: FT Graphics

range to replace Chrysler's aged K car series.

The result was that Chrysler entered the recession with a geriatric range of cars, losing market share, and without the big, profitable European operations which bolstered larger rivals Ford and General Motors. Jeremiahs said it might have to merge with a larger rival, though year-long talks with Fiat of Italy came to nothing.

However, adversity bred ingenuity. Chrysler saw the recession coming before its rivals, built up a \$40m reserve of cash through asset disposals, cut \$80m off running costs and spent heavily on the development of vital new models like the LH.

Its assembly plant productivity is much improved: it now takes Chrysler 3.76 workers to assemble a vehicle, much better than GM's 4.55 but still behind Ford, with 3.01, according to a report from consultancy Harbour & Associates.

It has also radically changed the way it develops cars, adopting a much more Japanese approach: it has forged much closer links with parts suppliers and has set up in-house teams which bring together people from different disciplines, such as design and engineering, to cut costs and quicken lead times. Some ana-

lysts argue the result is a model for the US industry.

However, development spending and recession have severely strained Chrysler's balance sheet and it remains in delicate financial health, though here, too, the recent signs have all been positive.

Last month, Moody's, the credit information agency, raised the company's debt rating for the first time in six years (though the borrowings still have "junk" status), after Chrysler completed a vital but tricky \$8.8bn loan roll-over for its vehicle financing arm. The company is also expected to report solid third-quarter profits today, in contrast to losses at GM and Ford.

Mr Robert Eaton, who will take over as chairman in January from Mr Iacocca, recently told the Financial Times that Chrysler's recently-completed business plan foresees capital spending of \$17.3bn over the next five years "and we are in a very good position to carry that out, even if the (US economic) recovery is far more anaemic than any we have ever had".

He says that over the next few years the company should be able to boost its share of the US car and light truck market from 13 per cent to 15 per cent. He rejects the suggestion that Chrysler may eventually need

to merge with another auto manufacturer: "I believe a company of around 2m units (roughly Chrysler's vehicle output) can be a viable stand-alone company."

Mr Eaton, 52, was named last spring to succeed Mr Iacocca. The choice was a surprise since Chrysler, after an intense internal power struggle, went outside the group to pluck him from the European presidency of General Motors, a company he had been with since 1983.

A down-to-earth engineer, he has a reputation as a manufacturing and quality expert, with an eye for detail and an ability to foster team-building.

Mr Iacocca, arguably the best-known industrialist in America, will be a hard act to follow - though he will stay on part-time for at least a year as head of the board's important executive committee.

The delicacy of the transition was underlined in August when Mr Kirk Kerkorian, the Californian who is Chrysler's largest single investor, demanded a meeting with company executives to express concern about the reduced role of Mr Iacocca, with whom he is friendly. Mr Kerkorian seemed to be mollified after meeting Mr Eaton for the first time. "In hindsight, I probably should have met him earlier," says the new chairman.

However, the incident has prompted speculation that Mr Iacocca might try to continue exerting authority, though both he and a relaxed Mr Eaton dismiss the idea.

For years Mr Iacocca has been Chrysler's most effective salesman, appearing in countless television advertisements to plug his company's products. His final campaign has just got under way, and has him lavishing praise on the LH range, with claims its design will transform the way Americans look at cars.

The market place will ultimately decide that, but at least Mr Iacocca is going out with a bang, and not the whimper which once seemed possible.

Capital Cities/ABC rises 17%

CAPITAL CITIES/ABC, the US television and newspapers group that controls the ABC Television network, said third-quarter net profit rose to \$62.18m, up from \$53.96m a year ago, writes Alan Friedman.

Earnings per share were \$3.74, an increase of 17 per cent on the \$3.21 recorded in the third quarter of 1991.

Net revenues were effectively unchanged at \$1.22bn.

Many of the group's operations continue to be adversely affected by the US economy. Broadcasting revenues for the quarter were flat at \$944.2m while operating income from broadcasting fell to \$89.3m from \$97.3m a year ago.

Publishing revenues were 3 per cent better at \$271m, while operating profits from this division rose to \$36.2m from \$31.7m.

For the first nine months, Capital Cities/ABC had total net profits of \$251.4m, a 5 per cent rise on the \$240.3m of the same period last year. The results included a gain on the sale of its interest in a German television network, which was partly offset by losses on the disposal of commercial property in New York City and asset write-downs.

The group's share price was down by 2% at \$27.75.

Weyerhaeuser ahead by 149%

By Karen Zagor in New York

WEYERHAEUSER, the US forest products group, yesterday unveiled a 149 per cent rise in third-quarter net earnings, reflecting high timber prices and improved productivity.

For the three months to September 27, net income was \$107.2m, or 53 cents a share, against \$43m, or 21 cents, last

year. Sales rose 6 per cent to \$2.34bn from \$2.21bn.

The forest products division continued to benefit from more stringent environmental regulations, which have curtailed the supply of timber from public lands in the western US and swollen prices. Operating earnings for the division soared 45 per cent to \$103m.

Pulp and paper operations

saw operating profits advance 23 per cent to \$61m, helped by better pricing of some products.

Nine-month earnings were \$285.7m, or \$1.41, on sales of \$6.88bn, compared with \$94.4m, or 47 cents, on sales of \$6.57bn a year ago. Excluding the impact of an accounting changes, earnings rose 84 per cent to \$286.7m from \$155.4m.

All of these securities having been sold, this announcement appears as a matter of record only.

NEW ISSUE

October 20, 1992

5,000,000 Shares



Brilliance China Automotive Holdings Limited

Common Stock

(\$5.01 par value)

NYSE symbol: CBA

The First Boston Corporation

Merrill Lynch & Co.

Salomon Brothers Inc

Bear, Stearns & Co. Inc. Alex. Brown & Sons Credit Lyonnais Securities (USA) Inc. Daiwa Securities America Inc.

Deutsche Bank Capital Corporation Dillon, Read & Co. Inc. Donaldson, Lufkin & Jenrette A.G. Edwards & Sons, Inc.

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Morgan Stanley & Co. The Nikko Securities Co. Nomura Securities International, Inc. OBSA International, Inc.

Oppenheimer & Co., Inc. PaineWebber Incorporated Paribas Capital Markets Group

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Sanford C. Bernstein & Co., Inc. Commerzbank Capital Markets Corporation Dominick & Dominick

First of Michigan Corporation Robert Fleming Inc. Furman Selz Gabelli & Company, Inc.

Kleinwort Benson Limited C.J. Lawrence Inc. Legg Mason Wood Walker

Mabon Securities Corp. McDonald & Company Rothschild Inc.

Unisys continues rally with sharp third-quarter upturn

By Louise Kehoe
in San Francisco

UNISYS, the US computer manufacturer, reported its fourth consecutive quarter of profitability, raising confidence that the once seriously troubled company was making a turnaround.

Unisys debt burden has been reduced to \$2bn, the lowest level since the formation of the company in 1986.

Net income for the third quarter was \$65.3m, or 23 cents a share, compared with a net loss of \$75.8m, or 26 cents last year. Revenue, aided by currency translation, was up 5 per cent to \$2.07bn, compared with \$1.97bn in 1991.

Tax-loss carry forwards contributed 6 cents a share to third-quarter net earnings. Growth in commercial information systems and services

revenue was partly offset by a slight decline in revenues from Paramax, Unisys defence subsidiary, the company said.

"Despite economic uncertainty, we are confident that our record over the past 12 months of sustained profitability is a solid foundation for 1993," said Mr James Unruh, chairman and chief executive.

"Global economic weakness contributed to a flat order picture in the quarter," Mr Unruh added. As projected by the company, total revenue for 1992 will be down from 1991.

"However, we are confident that we will meet or exceed all of our financial goals for 1993," he said.

"We are pleased that revenue and profits for the quarter and the year remain ahead of plan as we continue to successfully control costs in the weak environment that is negatively

affecting much of our industry."

Mr Unruh added: "Major restructuring is behind us, but we will continue to adjust our operations to meet changing business conditions. We will continue to absorb costs related to those adjustments in current operating results as we have throughout this year."

During the quarter, Unisys began paying down the arrears on its preferred stock dividends.

For the nine-month period, net income was \$222m or 73 cents a share, including 16 cents from tax benefits. This compared with a net loss of \$1.47bn, or \$9.69 a share, in the same period last year when the company took restructuring charges of \$1.2bn.

Revenue for the nine months was \$6.17bn, against \$6.23bn a year ago.

IMI to advise on Nuovo Pignone issue

By Helg Simonian
in Milan

ENI, Italy's public-sector energy and chemicals group, has chosen Istituto Mobiliare Italiano (IMI), the investment and financial services group, to advise on the privatisation of its Nuovo Pignone subsidiary.

Florence-based Nuovo Pignone is the second of the state-owned companies destined for accelerated privatisation following a surprise announcement by the government in

September. Last week, the IMI state holding group appointed Merrill Lynch as its adviser in the sale of Credito Italiano.

It is widely expected that Nuovo Pignone, which earned net profits of 137.1bn (€22.9m) after minority interests last year on sales of 1.155bn, will be privatised via a trade sale, probably to one of the world's big engineering groups.

The company, which employs about 5,000 at seven sites around Italy, specialises in compressors and gas tur-

bines, as well as a range of energy-related equipment.

ENI gave no indication of how or when the sale would take place.

The group, which has already mandated Merrill Lynch, Union bank of Switzerland and Banca Commerciale Italiana to report on how to go about a disposal, appears concerned to avoid a sale to the highest bidder without guarantees on job security and the development of Nuovo Pignone.

In spite of last February's unsuccessful coup d'état and the difficult economic reform programme, Venezuela's economy continues to grow at a vigorous pace and foreign investment remains strong.

On December 1st the Financial Times will be publishing an in-depth new survey that will examine among other topics the financial system, foreign investment opportunities, petroleum and petrochemicals and the role of Venezuela in world capital markets.

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FT SURVEYS

Liffe holds talks with CBOT over futures trade link

8	All stocks (12)	163.59	+0.10	163.43	0.62	3.96	14	Ratio of price to book value	Over 25 yrs.	3.73	3.74	4.05
9	Debt & Loans (62)	117.85	-0.78	119.27	1.82	10.11	15	Debt & Loans	5 years	9.12	9.53	11.51
							16		15 years	10.47	10.33	11.31
							17		25 years	10.53	10.43	11.12

COMPANY NEWS: UK

Henry Boot bucks trend with advance to £2.2m

By Paul Taylor

HENRY BOOT & Sons, the Sheffield-based construction and property group, continued to buck the sector trend with a 7 per cent increase in interim profits despite lower turnover and squeezed margins.

Pre-tax profits rose to £2.21m (£2.07m) in the six months to June 30 on turnover down 14 per cent to £51.1m (£59.2m).

Mr David Boot, chairman, said construction activities had benefited from latent claim settlements but were continuing to feel combined effects of reduced enquiry levels and exceptionally competitive margins.

Difficult trading conditions also extended to the plant hire side which experienced "an

unparalleled number of bad debts, reduced utilisation and fiercely competitive hire rates."

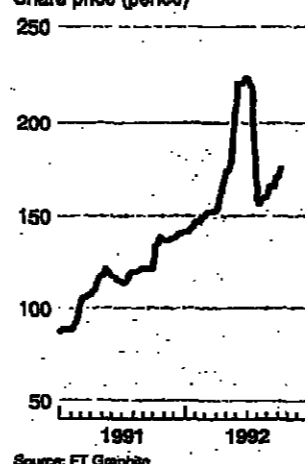
However, housebuilding operations "continued to hold their own in the first six months," despite high interest and mortgage rates and unemployment uncertainties.

Mr Boot said property investment and development activities have "of necessity had to be curtailed," although the group "continued to make some further progress" in planning consents, rental growth and in its joint venture activities in Kirkcaldy, Bridlington and Hull.

Earnings per share rose from 5.1p to 5.7p and the interim dividend is increased to 1.6p (1.5p).

Henry Boot

Share price (pence)



Source: FT Graphics

Master takes Maxwell's chess and bridge side

By Raymond Snoddy

THE LATE Mr Robert Maxwell liked to think of himself as a "strong" chess player and there was always a chess set in his suite in his London headquarters.

"There is no evidence to suggest that Maxwell actually was a strong player or that he played in any tournaments," said Mr Malcolm Pein, international chess master and director of Chess and Bridge, which yesterday took over the business and assets of Maxwell Macmillan Chess and Bridge.

There may be doubts about Robert Maxwell's strength as a player but less about his enthusiasm for the game. In 1990, through The European newspaper, he sponsored a section of the World Chess championships in New York. And when Pergamon was sold to Elsevier last year Maxwell kept the chess and bridge publishing businesses.

Mr Pein said it had taken most of the year since Mr Maxwell's death to prise the businesses, which include Chess Monthly and Bridge Monthly from the administrators to the Maxwell estate.

"Price Waterhouse took months and months to come up with any information about the company," said Mr Pein.

Even when the new company had reached agreement to buy the business from Price Waterhouse, administrator to the public Maxwell companies they then ran into trouble with Arthur Andersen, administrator to the private Maxwell businesses.

Mr Pein said the new company wanted to use and pay for the premises of Maxwell Macmillan Chess and Bridge - prefabricated buildings in the village of Wheatley, Oxfordshire - until they found permanent premises. However, he said that Arthur Andersen wanted two years back rent.

Despite the year of difficulties, Chess and Bridge is now set up in new premises in Euston Road, London. The company said it had the largest collection of chess and bridge books and products in the UK.

Quadrant loses £4.83m as shipping deal turns sour

By Angus Foster

QUADRANT, the photographic and video equipment company, yesterday announced heavy interim losses stemming from a shipping investment designed to shelter capital gains liabilities but which turned sour.

In the six months to August 31 pre-tax losses were £4.83m after exceptional charges of £3.61m, a downturn from a profit of £940,000. No dividend is declared, against 1.65p after losses per share of 16.85p (earnings 3.04p). The shares fell 2p to 20p.

The company's problems started with the purchase last year of two liquid petroleum gas carriers from Beckwith, which is controlled by Mr Robert Brothers, a Hong Kong businessman.

It wanted to shelter £6.2m of capital gains liability due on the sale of a telecommunications subsidiary in 1989. In part consideration for the purchase of the carriers, Beckwith took a 16 per cent stake in Quadrant, which has since risen to 18.48 per cent.

But the carriers lost money because of a downturn in the LPG transport market. Beckwith had guaranteed to make good any shortfall in revenues from the carriers but ran into financial difficulty, failed to meet its obligations and now owes Quadrant over £1m.

Quadrant has agreed to buy back and cancel Beckwith's shareholding at 23p a share, the mid-market price last Monday, to raise £1.15m. It will then sell the carriers, complete with £2.7m of sheltered capital gains liability, to Andreas

Shipping, a Greek ship management company, for £1.

If the ships operate profitably, Quadrant is entitled to further payments of up to \$1.75m (£1m).

The transactions depend on shareholders' approval and Beckwith's banks lifting certain charges now in place over the Quadrant shareholding.

Mr Andrew Douglas, chief executive of Quadrant, said the transactions would remove £4.2m of capital gains liability and leave Quadrant with only £700,000 of unsheltered liabilities.

This charge was provided for as an extraordinary item in the interim results, along with losses of £7.5m on the write down in value of the ships. As a result, loss attributable to shareholders came to £13m (profit £558,000).

Heron banks postpone meeting

By Maggie Urry

A MEETING of banks which lent to Heron, Mr Gerald Ronson's property group, has been postponed from today until October 29.

The meeting will consider proposals to be put to banks and bondholders owed more than £1.3bn by the group, which has been hit by the fall in property values.

The delay by the banks in holding the meeting was said to be caused by the need to finalise the proposals and make adjustment to take account of "a number of external factors", including interest rate and currency movements.

The group's 11 bonds are all denominated in currencies other than sterling. The fall in the value of the pound has meant a rise in the sterling value of the bonds from £450m when talks started in the spring to nearly £600m now.

Bondholders say that Heron's banks refused to provide the funds to hedge the foreign exchange risk on the bonds. They say that bondholders, many of whom are individual investors, should not be expected to bear that risk.

BOARD MEETINGS

TODAY	
Interim: Edinburgh Inv Trust, Farned Electronics, Gaird & National, Gwent Oriental Inv Trust, Harrogate Property, Plesio-Medical, Paterson Schott, Walsley.	
FUTURE DATES	
Interim:	
BMBS	Nov. 9
Chesfield Properties	Oct. 21
Essex Water	Oct. 22
Portsmouth & Sunderland	Nov. 12
Preston	Nov. 6
South Lymington Estate	Oct. 22
Suffolk Water	Oct. 22
Whitbread	Nov. 18
Platts	
Blitz (L)	Nov. 11
China & Eastern Inv	Nov. 3

Vardon opens at small premium

By Paul Taylor

SHARES in Vardon, the leisure attractions group formed by Mr David Hudd and Mr Nicholas Irens, began trading yesterday at a small premium to their 45p placement price.

In thin trading, the shares opened at 50p before slipping back to end the day at 47½p valuing the group, which owns the London and York Dungeons and eight Sea Life

centres, at £23.3m.

The group was formed in March when it acquired the Dungeons for £5.6m from Knick, the nursing homes and amusement machines group, after Mr Hudd, chairman, and Mr Irens, chief executive, joined the board of Winchester, restructured the company and changed its name.

Last month Vardon bought Sea Life Centres for £9.9m in cash and stock, and announced plans for the share placement

and listing, to help fund the acquisition. The placement of 23m shares, including 11.9m on behalf of Sea Life's previous owners, was handled by Morgan Grenfell, the merchant bank.

Last month the group reported interim pre-tax profits of £337,000 on turnover of £639,000 for the 27 weeks to July 5, and is forecasting annual pre-tax profits of £2.3m with earnings per share of 4p and a final dividend of 0.5p.

Interest in investor relations increasing

By Peter Martin, Financial Editor

COMPANIES WHICH take an active interest in investor relations typically have a couple of executives working on the subject, spending a budget of between £50,000 and £500,000 a year, according to a survey carried out for the Investor Relations Society.

The survey, covering 140 mid-sized and large companies, which are members of the society, is due to be published tomorrow. It shows that active investor relations is a relatively new practice for British companies. A little less than half the companies surveyed say they have been actively involved in the field for less than five years.

Though interest in investor relations has been rising, the bulk of non-staff spending goes on traditional activities. Some 37 per cent of com-

panies' investor relations budgets go on annual, interim or quarterly reports; 12 per cent on meetings with stockbrokers; 9 per cent on annual meetings, and 8 per cent on investor relations consultants.

Overall, 85 per cent of the budget is spent reaching UK investors, though the very largest companies spend a quarter of their investor relations budgets overseas.

Some 54 per cent have budgets of less than £250,000 a year and two thirds of the investor relations executives questioned have other responsibilities, such as finance, a company secretary's duties, or corporate communications.

Investor Relations in the UK, survey by Business Planning and Research International, published by Investor Relations Society, 29 Neal St, London WC2H 9PS. Members: 265, non-members: 190.

Mansfield Brewery expansion

MANSFIELD Brewery is buying 31 social clubs, mainly in Derbyshire and Yorkshire, from Courage. Terms of the deal were not disclosed.

The clubs have a total membership of more than 50,000 people. They will be given new tenancy agreements, including a right to buy at a designated time.

Mr Richard Chadburn, Mansfield's operations and personnel director, said that he expected about half the clubs would eventually take advantage of the provision. "They will then switch from being tenants to become free-trade customers," he said.

Receiver for North West Growers

This summer's glut of tomatoes, which has already caused the Dutch to bury 1m boxes of the fruit, has now resulted in the failure of North West Growers, one of the largest UK producers.

Along with Marathon Fresh

Foods, a sister company which packs and markets fresh salad vegetables, it has been put in the hands of Mr Mike Seery, the receiver from KPMG Peat Marwick.

North West and Marathon, both of Southport, Lancashire, had a combined turnover of £3m and debts of more than £2m. Established in 1970, North West invested £800,000 in a new five-acre site in 1988 to make it the largest tomato grower in the north-west.

It is hoped the businesses will be sold as going concerns. To that end, the 53 full-time and 48 part-time staff have been retained.

Tottenham Hotspur produces £773,000

Tottenham Hotspur, the north London football club, yesterday announced a special interim dividend of 3p and reported profits of £773,000 for the three months to August 31.

There are no comparative figures - which are for the parent company only - as the quarterly results were prepared solely for the special interim.

Last year, the parent reported a loss of £122,000 for the 12 months to May 31. The special dividend was made pos-

sible by the transfer from the share premium account.

Finsbury Trust assets decline

Net asset value per share of the Finsbury Trust slipped from 119p to 101.55p over the 12 months to September 30.

After-tax revenue for the six months to end-September improved to £485,000 (£430,000), equal to earnings of 1.99p (1.76p) per share.

The interim dividend is held at 1.2p. The trust said, however, that should earnings remain strong in the coming months it would "have the opportunity at year-end to declare an improved final" - 1.6p was paid previously.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Belle	0.5	Nov 13	1.83	-	4.33
Boat (Henry)	1.2	Nov 19	1.5	-	5.4
Finsbury Trust	1.2	Dec 4	1.2	-	3
Ldn & Stricklyde	4.25	-	4.25	5.75	5.75
Lowland Inv	5.5	Dec 21	5.35	8.5	8.1
MY Holdings	0.75	Feb 15	0.5	1	0.5
Quadrant	nil	-	1.65	-	-
Thursley	2	Nov 26	3	-	3

Dividends shown pence per share net except where otherwise stated. †On increased capital. \$USM stock.



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WITHOUT PREJUDICE

NOTICE

to the holders (the "Holders") of the receipts (the "Receipts") issued on deposit of the

Bell Resources Financial Services N.V.

(the "Issuer")

U.S.\$97,135,000 5 1/4 per cent. Guaranteed Convertible Subordinated Bonds due 1996

unconditionally guaranteed on a subordinated basis by

Australian Consolidated Investments Limited

(ACIL 008670824) (formerly called Bell Resources Ltd.)

(the "Guarantor")

in respect of which the put option in Condition 8(C) of the said Bonds was exercised (the "Bonds").

NOTICE IS HEREBY GIVEN to the Holders, further to the notice published by the Issuer on 24th August, 1992, that, in advance of the hearing of the Issuer's petition to the House of Lords for leave to appeal against the Judgment of the Court of Appeal referred to in such notice, the following without prejudice arrangement (the "Arrangement") has been formulated by the Issuer and the Guarantor for full and final settlement of all claims in respect of the Bonds:

"THE ARRANGEMENT"

Pursuant to a First Supplemental Trust Deed dated 16th October, 1992, the Issuer, the Guarantor and The Law Debenture Trust Corporation p.l.c. (the "Trustee") have agreed on and subject to the terms set out below that:

- (1) the Arrangement is without prejudice to the Issuer's and the Guarantor's rights in respect of the matters the subject of the petition to the House of Lords and all other matters relating to the Bonds, but shall, on and from the date of the relevant payment in accordance with (3) below, cease to be without prejudice in relation to each Bond to which a valid Settlement Notice (as defined below) relates;
- (2) on delivery to the office of the Trustee set out below prior to 3.00 p.m. (London time) on 27th October, 1992 of his Receipts together with a Settlement Notice (in the form obtainable from such office) (each a "Settlement Notice") duly completed and signed, each Holder shall be entitled to and bound to accept the payment by way of premium of U.S. \$500 in respect of each U.S. \$5,000 principal amount of each Bond to which such Settlement Notice relates in full and final compromise, settlement and discharge of all claims which such Holder, the Trustee or any other person may have against the Issuer and/or the Guarantor in respect of such Bond (including any claim for interest whether in respect of such Bond or otherwise); and
- (3) such payments shall be made by the Trustee (out of the amount paid by the Issuer referred to in the notice published by the Issuer on 24th August, 1992) as soon as practicable upon delivery as aforesaid in accordance with the instructions given by Holders in the relevant Settlement Notices and forthwith thereafter the Trustee shall endorse or procure the endorsement

of the Receipt(s) with the aggregate principal amount of the Bonds to be cancelled, whereupon the aggregate principal amount of the Bonds shall be reduced for all purposes by the amount so endorsed.

It is the present intention of both the Issuer and the Guarantor to proceed with the petition to the House of Lords and, if successful, with the appeal against the Judgment of the Court of Appeal.

Holders are referred to the notice published by the Issuer on 24th August, 1992 and, in particular, are reminded that it is expected that the issue of whether the Issuer will receive leave to appeal pursuant to its petition to the House of Lords will be resolved by the end of October, 1992 or shortly thereafter. In addition, certain applications in relation to an action for rectification of the Conditions of the Bonds have been adjourned until at least 14th December, 1992 and a writ has been issued seeking interest on the difference between the redemption price of the Bonds of 117.70 per cent. of their principal amount and the redemption price of the Bonds of 100 per cent. of their principal amount at such rate and for such period as the Court shall think fit.

In accordance with its normal practice, the Trustee has expressed no opinion as to the merits, financial or otherwise, of the Arrangement (which it was not involved in negotiating).

Copies of the following documents will be available for inspection by Holders during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 27th October, 1992 at the office of the Trustee set out below:

- (i) the Trust Deed dated 13th November, 1986 between the Issuer, the Guarantor and the Trustee constituting the Bonds;
- (ii) the notices to holders of the Bonds published in the Financial Times on 27th September, 1991, 11th November, 1991 and 24th August, 1992;
- (iii) the Judgments of Mr Justice Ferris and the Court of Appeal referred to in such notices; and
- (iv) the First Supplemental Trust Deed dated 16th October, 1992 referred to above.

Trustee
The Law Debenture Trust Corporation p.l.c.,
Princes House, 35 Gresham Street,
London EC2V 7LY.

Published by:
Bell Resources Financial Services N.V.
20th October, 1992.

Approved by:
International Pacific Securities plc for the purposes of section 57 of the Financial Services Act 1986. International Pacific Securities plc of 37 Lombard Street, London EC3V 9BQ is a member of FIMBRA.

This Notice is important. If Holders are in any doubt as to the action they should take in respect of any aspect of this Notice they should consult their stockbroker, solicitor, accountant or other professional adviser duly authorised under the Financial Services Act 1986 without delay.

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Sterling fall sparks interest in depressed oil sector

Analysts revise their earnings forecasts as the pound continues its slide against the dollar: Neil Buckley reports

AFTER months of depression, the outlook for oil companies is brightening and share prices in the unloved sector are showing signs of recovery.

Since the devaluation of the pound a month ago, Monument has picked up 22 per cent. Goal 23 per cent, Clyde 44 per cent, Enterprise 21 per cent, Hardy 39 per cent and Lasmco 32 per cent.

The latest monthly report on oil production from the Royal Bank of Scotland estimated the pound's devaluation would add about \$2.5m a day to the value of UK North Sea oil production, taking it to \$21.7m.

Analysts, meanwhile, have been busy revising their earnings forecasts for oil companies. Hoare Govett, the London brokers, recently published a note forecasting a possible fall in the average value of sterling to \$1.55 in 1993, which would mean a doubling of profits for some companies.

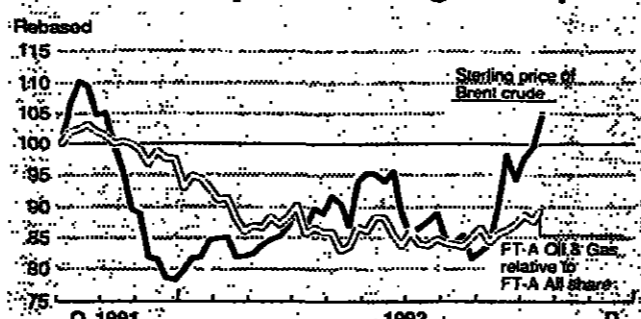
Oil is traded worldwide in dollars, so a weakening of the pound against the dollar means a higher sterling price for each barrel of oil. For UK exploration and production companies without downstream interests, who specialise in finding, producing and selling crude, such increases feed through almost directly to the bottom line.

It was the downward drift in sterling oil prices, to a 20-year low in real terms of about \$10.50 a barrel in the first half of 1992, that was largely responsible for the poor performance of oil companies and the weakness of their shares. In the week before sterling's devaluation, exploration and production stocks were trading at an average 40 per cent discount to their asset values. Two years earlier, they had traded at a 40 per cent premium.

But there were other factors. One catalyst was the takeover of Ultramar by rival independent Lasmco in December 1991, with an all-paper offer of 285p a share, compared with City valuations of more than 400p a share for Ultramar.

With no company willing to step in with a higher (or cash) offer, the takeover had a depressant effect on the whole sector, and the City of London began to review its approach to the rest of the exploration companies. Analysts have moved away from asset valuations - which value a company according to the future potential of the exploration acreage in its portfolio - and towards valuations based on cashflow multi-

Oil stocks respond to rising crude price



ples and dividend growth. Some in the oil industry also claim that investment analysts and fund managers do not understand the way the industry has changed in the last few years - particularly the increasing importance of gas, and the international expansion by many companies.

"Many analysts aren't comfortable with the concept of billions or trillions of cubic feet of gas, or with developments in far-off places like Indonesia. They're much happier with barrels of oil, preferably from the North Sea," said a director of one exploration and production company.

Some of these factors will persist. But UK oil companies

and analysts are waking up to the fact that the fundamentals for oil prices look stronger than they have for some time. With sterling now at about \$1.65, and Brent crude at about \$20.80 a barrel, the sterling oil price stands at more than \$12.60 a barrel. Moreover, with the Organisation of Petroleum Exporting Countries agreeing at its meeting last month to freeze output at its August level - allowing only for a small increase by Kuwait - analysts say a tight market could push Brent crude prices to \$22.

If forecasts of an unusually cold winter come true, the price could go even higher.

The improved price has

already benefited stocks with large North Sea interests, especially Clyde - which recently formed a joint venture with Austrian oil group OMV to undertake further exploration work - Goal, Pict and Monument. Ranger could also benefit, although its shares have been among the few that have largely held their value during the downturn.

Premier Consolidated Oilfields, which also has important North Sea interests, has performed less well. Mr Charles Jamieson, Premier's chief executive, said his company's stock is traditionally one of the more liquid and complains that the City is not placing sufficient value on the company's gas interests in a 3,500bn cu ft gas field in Pakistan. "We only have 9% per cent," he said, "but that means 320bn cu ft of gas, which is roughly the size of most North Sea fields these days."

Two of the biggest winners, however, have been Enterprise and Lasmco of the independent sector. Lasmco is strongly geared to the strength of the dollar versus the pound. Mr Michael Pavia, finance director, has said every £1 rise in the sterling oil price adds £40m to Lasmco's cashflow.

Enterprise is also seen as highly geared to dollar

strength because most of its income is in dollars, and most of its spending in sterling. A 10 per cent increase in the value of the dollar adds approximately £40m to cashflow and £30m to earnings, analysts say. Some oil stocks have also benefited from a third factor - improved US gas prices. After falling for more than two years, US spot prices reached a nadir of 90 cents per million British thermal units in February 1992, 33 cents below the price a year earlier. By May, however, prices had risen above their corresponding 1991 level, and they continued to strengthen to reach \$2.60 per million Btu by the end of September - helped partly by disruption to production caused by Hurricane Andrew.

The price has settled back to about \$2.40, but analysts believe this is supported by market fundamentals, the low prices made many companies cut back their drilling programmes, so supply is now more balanced with demand.

This is good news for companies with exposure to the Houston or Louisiana gas business, such as Hardy Oil, British Borneo and Aran Energy. Cairn Energy, which has built up significant US gas interests

and last week announced a 40 per cent interest in a 150bn cu ft gas discovery offshore Louisiana, is also likely to be a prime beneficiary. "Every 10 cents on the US gas price adds \$700,000 (\$407,000) to our cashflow," says Mr Bill Gammell, Cairn's chief executive.

There is, of course, no guarantee that exchange rates or oil and gas prices will move as predicted. So, for the moment, the gains made by the oil sector remain fragile, and it may still take a takeover bid to underpin them.

Speculation abounds that Enterprise, which has raised \$280m through a public offering of American depository shares and a further tranche of dollar preference shares, might be considering an assets acquisition, or a swoop on a company. Favourite among possible targets is Monument, seen as having an attractive portfolio.

The majors, too, might consider a swoop on one of the exploration and production companies. In spite of the pick-up in its shares, Lasmco remains a possible target. It would be ironic if the company whose own acquisition activity did so much to depress the market last year was itself the victim of a takeover which went on to boost prices.

Courts floats subsidiary on Singapore stock market

By Kieran Cooke in Kuala Lumpur

CCOURTS (Singapore), part of Courts, the UK home furnishings group, is making a public share offering prior to a listing on the main board of the Singapore stock exchange.

The offering comprises 25m shares of 20 Singapore cents at 68 cents each to raise the equivalent of \$6.8m.

Courts (Singapore) was established in 1973 and now has five furnishing and electrical outlets in Singapore. It has established a reputation as an aggressive seller, becoming one of the biggest local retailers of household items.

It plans to become the first company in Singapore to use TV advertising to publicise a flotation. The offering closes on November 3.

Mr Albert Elphick, managing director in Singapore, said it was planned to open more stores there, increasing retail space by at least 50 per cent. He said although the local retail industry might be facing a downturn, the Singapore government's plans to upgrade and build new public housing should ensure a bright future for the company.

Expanding Volex expects sharp profits advance

By Peter Pearce

SIX MONTHS of search and negotiation have paid off for Volex, said Mr Howard Poulson, chairman of the electrical interconnection products and systems company, when he announced the acquisition of a 60 per cent stake in Mayor, a Singapore-based manufacturer of data and power cord assemblies, for \$818m (\$55m).

Mr Poulson said the acquisition was "a further and important step in Volex's strategy of becoming a global supplier of cable assemblies to the computer, medical and instrumentation markets".

Volex also forecast that its pre-tax profits for the six months to September 30 would be about \$2.8m, a rise of 26 per cent over the \$1.5m of last time, and "a very conservative" estimate in the view of Mr Poulson.

He said the order book was "very strong" at Pencon, where sales had already been boosted

by expected safety legislation to make compulsory in the UK the fitting of plugs (moulded where possible) to electrical appliances.

He added that the two data cable assemblies makers - Cable Products of Massachusetts, acquired in January for up to \$14.6m, and Icontec of California, bought in July for up to \$13.1m - "were operating at good activity levels".

Mr Poulson said Mayor also had record order books, "bursting at the seams". In the 33 weeks to August 22, it made pre-tax profits of \$1.86m (\$690,000) on sales of \$22.3m and in the year to December 31 had profits of \$2.3m on sales of \$32.7m. At that date net assets were \$95.2m.

The acquisition was financed mostly by a bought deal with SG Warburg Securities - a vendor placing of 1.91m new ordinary Volex shares of 25p each. Most were taken up by existing shareholders.

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LOCATING IN NORTH AMERICA

Tuesday October 20 1992

BMW is just the latest example of a remarkable surge in foreign direct investment in North America, partly with the establishment of greenfield operations but most dramatically through the takeover of US companies. Martin Dickson reports

Investment continues

THERE is no more dramatic example in recent years of a European company locating in North America than BMW's announcement this summer that it would be building a new plant in South Carolina, its first outside West Germany.

BMW had spent three years scouring the world for a manufacturing site after deciding that it needed new capacity outside Germany. Its decision to plump for the US - and South Carolina - tells a great deal about the factors driving European and Japanese companies in general to locate in North America.

BMW wanted to be close to the already large American market for its vehicles and to be within the proposed North American Free Trade Area, which promises a big increase in intra-American trade over the next decade.

It was lured to South Carolina by factors which included generous state financing and worker training programmes; easy access to ports for exporting and importing; and an Eastern time zone, making communications with Germany easier.

BMW is just the latest example of a remarkable surge in foreign direct investment in North America which developed in the 1980s, partly through the establishment of greenfield operations, but most dramatically through the take-

over of US companies. Direct foreign investment in the US rose from \$83bn in 1980 to \$403.7bn in 1990, according to the Commerce Department.

The surge has slowed somewhat over the past two years as the takeover wave of the 1980s has died away. However the region continues to enjoy a steady stream of new greenfield investment and the overall volume is likely to gather momentum again when the western world eventually moves out of recession.

For the past two years European companies have tended to focus their energies on matters nearer home: the problems of operating in an economic recession and the opportunities supposedly opened by the European Community's 1992 initiative and the collapse of the Soviet empire. Japanese companies have domestic economic concerns as well and several have been stung by paying excessively high prices for US assets in the 1980s.

However, the recent political and economic turmoil in Europe, as well as the realisation that it will take years before the former Soviet bloc provides meaningful profits, may help refocus attention on North America.

After all, the US remains by far the world's largest market speaking a single language. And the creation of a North American Free Trade Area



(Nafta), including Canada and Mexico, will make the market even larger, presenting companies with some 365m potential consumers. The Nafta pact, on which broad agreement was reached over the summer, now awaits final wording and legislative approval.

That said, foreign companies already in the US, and prospective investors, must be extremely concerned about the outline proposals of Mr Bill Clinton, the democratic presidential nominee, to increase the taxes of foreign multinationals operating in the country. A similar proposal has recently been circulating in Congress.

Moreover, entering the North American market presents many pitfalls for the unwary. BMW is only too well aware of the unfortunate precedent of fellow German motor company Volkswagen, which invested in a US plant in the late 1970s

only to pull out in 1988 after suffering heavy losses.

Reasons for VW's defeat included a reputation for poor quality at its Pennsylvania plant, insufficient productivity there, and a failure to market successfully to the US consumer.

Yet the US car market can be conquered by foreign entrants, as Japanese manufacturers such as Toyota and Honda demonstrated during the 1980s with immensely successful greenfield plants. Japanese companies now account for about 30 per cent of the US car market.

That said, not even the Japanese have been infallible in North America: Nissan, one of Japan's leading car companies, has struggled for years to raise its share of the US market.

Multinational companies such as these devote great attention to picking the right site for North American

operations. But evidence suggests that too many other companies pay only scant attention to this, often simply locating a new facility next to an existing one, or merely considering a single state.

This may save time in the short run but over the longer term it may prove costly. Experts in the field say key factors which should be considered by any company include:

- Geographical and communications factors. How close does a company need to be to the market it is serving? And how good are the road, rail, air and telecommunications links between the proposed location and both the market and head office?

Many European companies prefer to be on the eastern seaboard, closest to home in terms of both time and distance, while many Japanese companies prefer the Pacific coast for the same reason.

However, some consultants argue that too many companies simply pick the largest city as a base in their preferred geographical region, ignoring the advantages of so-called second cities. These are smaller cities, often a short commuter flight from the main centre, with good academic facilities and which may offer the company cheaper costs, a more qualified labour force, better infrastructure and a more pleasant way of life.

- Relative costs of land, labour and property. These costs vary greatly around the US - and within individual regions. A big factor encouraging United Parcel Service to relocate from the New England state of Connecticut to Atlanta, Georgia, was the high cost of housing in Connecticut, which made it hard for the company to persuade good regional managers to relocate to headquarters. Connecticut, for its part,

has spent several decades picking up companies relocating from expensive New York City.

- Local education standards. Educational achievement levels vary widely around the US, but most states now recognise that raising the country's relatively poor standards is vital to attracting new investors who demand sophisticated workforces.

Companies which only require unskilled labour will tend to look to Third World countries, lacking minimum wage legislation, rather than to the US.

- State and local government aid. US states and counties, scarred by recession and unemployment, are bidding vigorously against one another for new investment through generous tax rebates and other incentives. Very attractive packages can also often be negotiated with some local electricity utilities.

- Training assistance. This is a new form of state aid which is likely to play an increasingly important role in greenfield site selection in future. Several states, such as South Carolina and Georgia, have agreed to pay for the pre-job training of companies locating there. South Carolina's willingness to shoulder these costs was one of the most important factors attracting BMW to the state.

The training involves not just the technical skills needed to work in the plant but softer issues, such as teamwork and how factory floor employees can assume greater responsibility.

Mr Robert Ady, president of PHH Fantus, an international business location consulting firm which advised BMW on its new plant, says this focus on pre-employment training is a relatively new and important trend.

New manufacturing techniques mean more responsibility is being pushed down to the factory floor, but workers are reluctant to accept this new "empowerment."

Mr Ady says that roughly 50 per cent of necessary pre-job training may now consist of such "soft" management issues. However, he adds that it is often hard for state legisla-

IN THIS SURVEY

□ Canada: Any company offering new jobs, especially in manufacturing, can expect a warm welcome Page 2

□ Nafta: For multinational-als, the agreement comes close to total wish fulfilment Page 2

□ Incentives: Several factors have contributed to a rise in the level of incentives Page 3

□ US regions: Regional economies each have their own cycles of growth and recession Page 5

□ Editorial production: Phil Sanders

tures to see the benefits of voting money for training in "how to have more fun on the job."

- Choosing a location acceptable to relocating staff. There is a danger that a company will fix on an area which makes sense from a cost viewpoint but then find difficulty in getting its best people to move to the area.

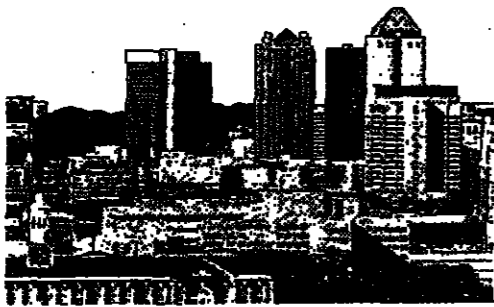
Many foreigners, for example, would feel more comfortable in the cosmopolitan environment of a big city such as New York than in some of the more insular towns of the American interior.

Relocation advisers say that 40 per cent or more of corporate transferees often refuse to relocate.

Managements which have not accurately gauged in advance the acceptability of their plans may find business seriously disrupted while they train fresh staff at their new location.

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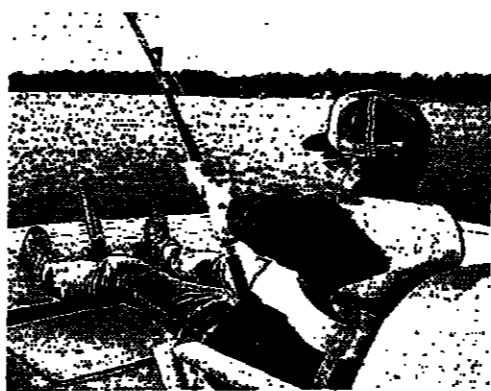

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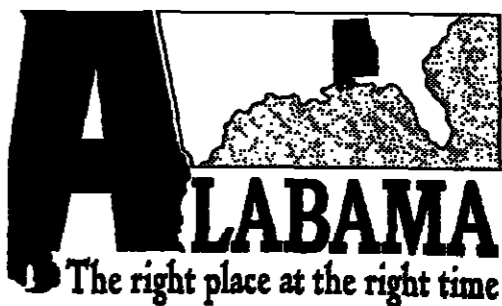


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LOCATING IN NORTH AMERICA 2

□ CANADA

Investment is easier

CANADIANS are more receptive to foreign investors now than they have been for many years. With the economy in the doldrums, any company offering new jobs, especially in manufacturing, can expect a warm welcome.

Most curbs on foreign investment have been relaxed, except for a handful of politically sensitive areas, such as cultural industries and airlines.

Only a small proportion of acquisitions and greenfield projects still requires screening by Investment Canada, the government's foreign-investment watchdog.

Energy, financial services and pharmaceuticals are among the sectors where access for foreign companies is easier now than it has been at any time in the past two decades. Furthermore, federal and provincial incentives are plentiful, ranging from outright grants and interest-free loans, to worker-training assistance.

These carrots are not proving juicy enough, however. Ironically, while many Canadians have been warning to foreign business, the view of Canada among investors has grown distinctly chilly.

Ms Maureen Farrow, chief economist at Coopers & Lybrand's office in Toronto, observes that "we're not the natural for investment which we used to be, and we're not really making it easy for ourselves".

Ms Farrow groups the complaints in two main categories: the cost of doing business in Canada, and the public policy environment.

High taxes are a particular concern. According to a recent Organisation for Economic Co-operation and Development (OECD) report, the proportion

of taxes to GDP in Canada has climbed from 34.5 per cent in 1989 to 37.1 per cent in 1990 and 39.4 per cent last year. By contrast, the US has a tax burden of just under 30 per cent.

With governments at all levels facing a severe budget squeeze, there is little scope to bring down taxes and other levies until the economy improves.

The business community is also upset with the policies of social-democratic governments in Ontario and British Columbia, two of Canada's most industrialised provinces.

As Ms Farrow puts it, politicians in Ontario "are not completely anti-business, but there's a perception in the marketplace that they're working to increase the costs of doing business here, rather than to decrease it".

For example, business people point to stricter environmental reviews (and thus longer delays in getting new projects off the ground), and the widening scope of "employment equity" rules, which require employers to pay greater attention to the needs of visible-minority and disabled employees.

Employers in Ontario are currently waging a vociferous campaign against a proposed new labour law which would, among other things, severely limit the ability of strikebound companies to hire replacement workers.

On the other hand, Quebec is aggressively wooing investors with an industrial strategy focused on 13 "clusters" in which the francophone province believes it has the best chance of being competitive in world markets.

Five sectors - aerospace, pharmaceuticals, information technology

products, power generating equipment and metal processing - are already well established there.

Rolls-Royce, the UK engine-maker, recently unveiled a C3140m (\$113.90m) venture to produce an industrial version of its Trent 800 turbofan engine near Montreal. The company has been helped by a C\$17m interest-free loan from the federal and provincial governments and by investment tax credits.

Rolls-Royce's decision is evidence that, for many companies, the present drawbacks of locating in Canada are still outweighed by advantages.

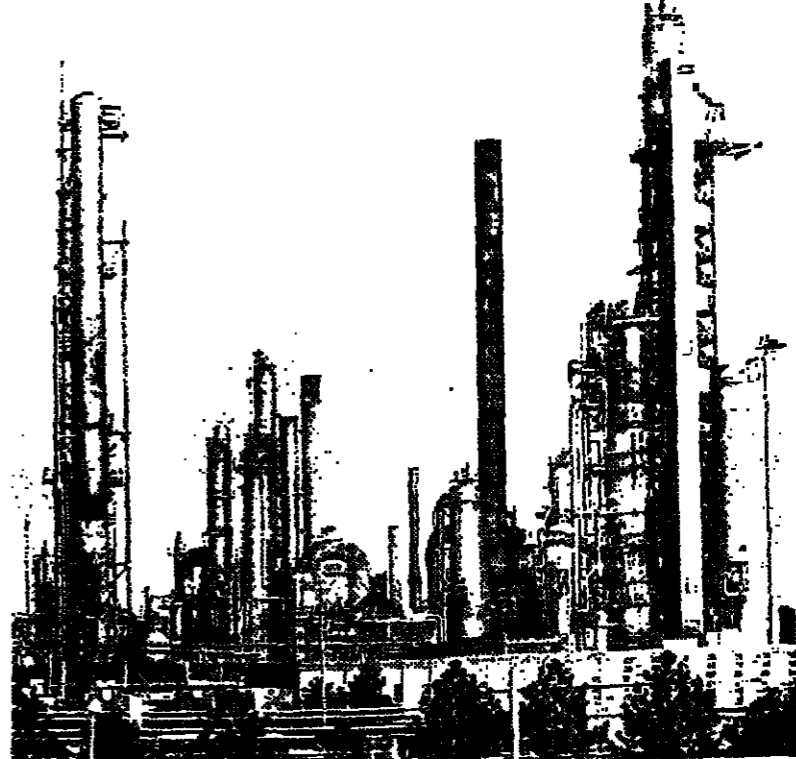
Besides government assistance, investors continue to be drawn by Canada's rich natural resources, its highly-educated and reliable workforce, the high disposable income of consumers, and by the pleasant lifestyle for expatriate managers.

Pharmaceutical companies such as Glaxo and Merck Frost have substantially expanded their research and development facilities in Canada, as the federal government has improved patent protection for brand-name medicines.

Canada has always touted its proximity to the big US market as a drawcard for investors. The 1989 free trade pact with the US and the recently-negotiated North American free trade agreement with Mexico have added an important new dimension to this argument.

Lower trade barriers mean that investors thinking of locating in Canada would be foolish not to look beyond the domestic market.

As the Conference Board of Canada noted in a recent study, US subsidiaries can no longer justify their pres-



Industry in Ontario: The business community is upset with the policies of social-democratic governments in both Ontario and British Columbia

ence in Canada simply on the basis of domestic sales. The Canadian offshoots must now "carve out and justify their existence as an integral component of the company," the Conference Board said.

The 1989 US-Canada free trade agreement, coupled with the recent recession, have already exerted strong pressure on business, workers and government to improve Canada's competitiveness - and thus its attraction to foreign investors.

Canada now has the lowest inflation rate - just above 1 per cent - among leading industrial countries. Wage increases have slowed dramatically in the past two years, and

companies are becoming increasingly outspoken in their criticism of unhelpful government policies.

Policy-makers are gradually coming to grips with some of the thorniest issues affecting the long-term business climate. These include increasingly close scrutiny of the much-maligned education and unemployment insurance systems, and of hard-pressed workers' compensation and health care services.

But it is still too early to tell whether, when and to what extent business's concerns will be addressed through tangible reforms.

Bernard Simon

□ North American Free Trade Agreement

One big weakness

EIGHT reports, prepared by the Bush Administration's "private sector advisers," were sent to Capitol Hill last month along with the text of the North American Free Trade Agreement (Nafta).

Seven of the eight were hearty endorsements.

"Nafta is the most comprehensive agreement dealing with services that the US has yet negotiated," said Mr John Reed, chairman of Citicorp.

"By linking the US more closely to two of our principal trading partners, new jobs will be created, new businesses formed..." said Mr Joseph Gorman, chairman of automotive, space and information services group TRW. Furthermore, said Mr James Robinson, chairman of American Express, the pact will "enhance the worldwide competitiveness of US companies and provide a model and incentive for more open trade and investment relations with

will be allowed to move and operate freely in the region.

With just a few exceptions - the oil sector in Mexico and the "cultural" sector in Canada - investors from one Nafta country will be accorded the same rights as domestic producers in another.

Although some takeovers will require government approval, investors will have no performance standards to meet and they will not face any restrictions on transfers of profits, royalties or other payments, proceeds from the sale of all or part of their investments. They will have complete protection for their patents, copyrights, trademarks and trade secrets.

Although the borders of the trade area will be protected by domestic content requirements - in the case of cars, 62.5 per cent in eight years - new barriers have not been raised to outsiders. More than ever before, environmental safeguards have been included in this pact. Customs procedures are harmonised and an elaborate dispute settlement mechanism is established with a commission and a secretariat to manage the implementation of the agreement.

For all its truly historic proportions, the pact has one big weakness: its failure to provide for the social consequences of integration. In its haste to help President Carlos Salinas of Mexico "lock in" his unilateral economic reforms, the US and Canada may be condemning Mexico to economic domination by the multinationals of its northern neighbours. Their failure to push for expanded labour rights may doom Mexican workers to continued exploitation and subsistence living standards.

This is where the eighth "public sector adviser" - the Labour Advisory Committee - stands. It acknowledges that Mexico has labour laws on

the books as strong or even stronger than its northern neighbours. But, to its own detriment, the laws are not enforced.

"There are no protections in this agreement against further de-industrialisation of the American economy," the LAC says. "There are no counter-incentives to inhibit massive transfers of investment and production to Mexico."

The pact inevitably leads to plant closures, job losses and lower standards of living in the higher-wage nations, the LAC continues. "For all the countries, it could mean the degradation of workplace health and safety standards, a

possible increased use of child labour and a general deterioration of labour management relations."

US trade officials insist this will never happen. Trade-related jobs pay 17 per cent more than other jobs, they say; ultimately Mexican wages will rise as they have in other export-based economies. This contention is disputed, however, by a report from the non-partisan Congressional Office of Technology Assessment (OTA).

"Mexican wages will probably remain low, held down by large-scale unemployment and underemployment, attracting investment by US companies seeking to compete through

low wages rather than high productivity," said the OTA. Furthermore, the pact will throw Mexicans off their uncompetitive farms and businesses, which will lead to increased emigration from Mexico to the US. Growing trade and investment will intensify the environmental problems along the 2,000-mile US-Mexico border.

The extent to which these trends - or, indeed, the pact as a whole - will affect the US and Canadian economies is in dispute. A special study by DRI-McGraw Hill concluded that although the agreement will change the profile of North American industry and investment and trade flows over the long run, the impact will not be immediate "nor will it be static over time."

"In general, DRI (Daewoo Research Institute) expects the major impact of the agreement to occur on investment flows,

at least in the short term, while a significant stimulus to increased trade flows will occur only over a longer period of time," it said.

Although it is difficult to separate purely Nafta-related investment from other capital flows, Mexico has already experienced a huge increase in investment - a cumulative 78 per cent increase between 1988 and 1991.

Mexico will absorb the largest macroeconomic impact, but the effect will be limited to about 1 per cent a year on Mexico's growth rate. The impact on the US and Canada will be even smaller.

A significant factor in the outcome could be the US election. Governor Bill Clinton, the Democratic candidate, has promised to strengthen Nafta provisions for labour and the environment.

Nancy Dunne

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LOCATING IN NORTH AMERICA 3

PROPERTY and LABOUR MARKETS

Costs can vary greatly

THE costs and availability of property and labour rank among the top concerns of companies considering relocations.

Property costs can vary greatly depending on whether a company is looking to locate a manufacturing plant, find a headquarters or regional office or set up a distribution warehouse. Yet, no matter the type of facility, shifts in the US property market have occurred that have affected and will affect property prices.

Two factors have wreaked havoc with the US property market over the past few years: the overhang in supply of commercial properties from excessive building during the 1980s and a decline in demand stemming from the US recession and continued economic sluggishness.

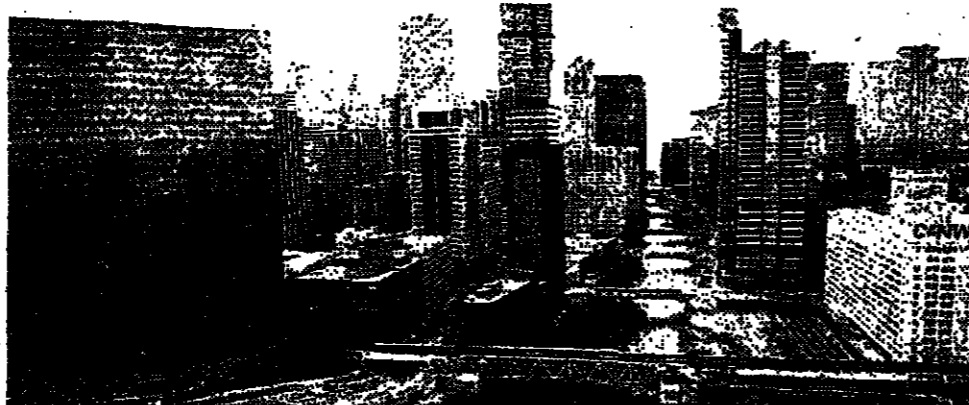
Although the building boom of the 1980s is over, some cities overbuilt more office space than others and some, such as Chicago which arrived late to the party, have recently faced substantial and badly timed additions to their office property inventories.

In 1991, after the economy had run out of steam, Chicago added 3.4m square feet of commercial property and saw its central business district vacancy rate rise to 23.3 per cent from 17.6 per cent between the second quarter of this year and the same period last year, according to figures from Cushman & Wakefield, a top US commercial property firm.

Vacancy rates can push rental costs up or down. In the central business district of Los Angeles, the vacancy rate rose to 29.2 per cent in the second quarter from 22.8 a year before and rental costs declined from a range of \$20-42 per square foot to \$17-40.

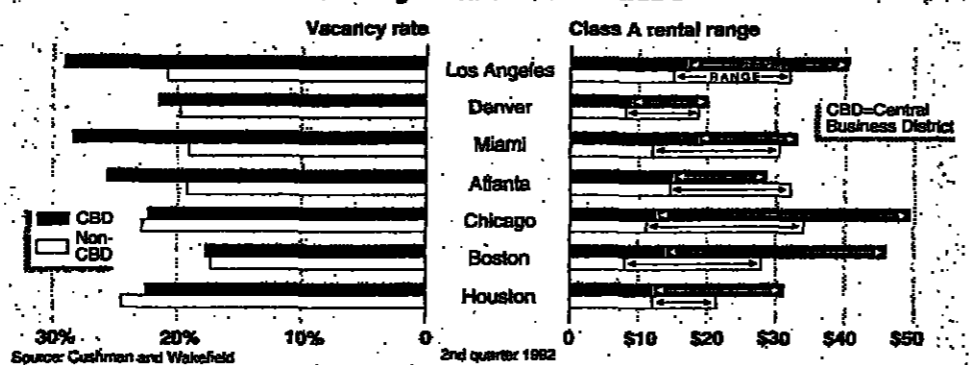
In addition to lower prices, more vacant space can also mean tenants can win fatter concessions from landlords for outfitting the space or grace periods at the start of the lease.

Even with little additional building, the cost of property has been driven down in some areas by lack of demand. Areas such as New England and the Mid-Atlantic states, including



Chicago has faced substantial badly-timed additions to its office property inventory. Picture: Glyn Upton

National office vacancy and rental rates



Cost-of-living values in selected locations: 1992

Location	Total annual costs (\$)	Index
Los Angeles, CA	77,454	129.1
Washington, DC	71,967	118.9
Boston, MA	69,901	115.5
Chicago, IL	66,353	110.8
Atlanta, GA	63,925	106.5
Minneapolis, MN	63,227	105.4
St Louis, MO	60,081	100.1
STANDARD CITY, US	60,000	100.0
Houston, TX	58,344	97.2
Phoenix, AZ	55,718	92.9
Memphis, TN	55,492	92.5

Based on a family of four with a \$60,000 annual income, living in a 2,400 sq ft home which carries a mortgage and incurring all normal home ownership and maintenance costs. The family owns two cars; a late model driven 14,000 miles a year and a four-year-old model driven 6,000 miles yearly. Car expenses include both fixed and operating costs. Federal, state and local income taxes are paid. They also pay sales taxes and purchase goods and services typical for a family in their income bracket at their location. The family has also set aside an amount for investments and savings. Costing in based on representative commodities surrounding the core city in which families earning \$60,000 a year are most likely to reside.

Source: Runzheimer International

such states as New York and Pennsylvania, have been hard hit by the US economy's downturn and the consolidation of the securities and banking industries.

On the opposite coast, the

computer and defence industries that were once the engines powering California's growth have been shrinking painfully over the past two years and, at least for defence, will continue to do so.

But as testimony to the gravity of the US recession, the national vacancy rate has continued to climb for central business districts even though the amount of newly added space in those areas has declined every year since 1986.

However, this trend has been accompanied by a shift away from central business districts.

More and more companies are choosing to set up in the suburban areas immediately surrounding large or mid-sized cities or to forsake cities for more rural locations, particularly for greenfield plants.

BMW, for example, selected Spartanburg, South Carolina for its new assembly plant.

In greenfield sites, it is virtually worthless to cite property costs, since these frequently are a bargaining chip in negotiations with a relocating company. Often the site itself can cost nothing or very little.

The flight from the inner cities has partly been spurred

by costs, but it also has much to do with quality of life issues - such as schools, housing, parks and recreation.

The northern suburbs of Atlanta, for example, have been ranked as the number one preferred location by a series of surveys, including that of Ernst & Young with the International Association of Corporate Real Estate Executives which was published earlier this year.

The area's amenities, and most particularly the relatively reasonable cost of housing, has convinced a number of large companies to relocate there recently, including UPS.

The cost of living for employees is important for companies, particularly because of what kinds of salaries and wages will be required at the new site. Runzheimer International, a Wisconsin-based consulting firm on living and travel costs, calculates that \$60,000 is the standard compensation for a middle management employee or a highly skilled technician.

Based on a family of four, with a mortgaged home and two cars, companies would have to vary their compensation levels according to location. They would have to pay employees more to settle in Los Angeles, with total annual costs of \$77,454, than in Memphis, where costs run to just \$55,492 a year.

For companies seeking reasonably priced manufacturing labour, the US's south-east continues to offer the best value with an average of just \$3.77 per hour, according to figures compiled by PHH Fintus, the leading US relocation consulting firm. Yet in spite of the lower averages of wages in the region, two of the south-east's states, South Carolina and Georgia, have innovative public programmes to train employees for incoming investors.

Mr Robert Ady, president of PHH Fintus, said that foreign firms often overestimate the skill level of American workers. He advises them to realistically appraise local worker capabilities.

South Carolina's programme to train BMW workers was, he said, crucial to its choice of that state.

With the North American Free Trade Agreement on the horizon, however, those whose top priority is to set up in a low wage location are likely to go to Mexico.

Barbara Harrison

INCENTIVES

Enhanced packages

THE adage that information is power has a new application in the corporate relocation business.

As companies have learned more about what array of incentives are available (or even conceivable) and other companies' agreements have become standards to exceed, incentive packages to lure relocating firms have increased.

"The level of incentives has increased in the last two years," says Mr Robert Ady, president of PHH Fintus, the leading US consulting company.

Incentive packages used to run between \$10,000 and \$30,000 per worker, or some 10-30 per cent of total investment. But now, says Mr Ady, while the range is the same, the average has risen a couple of percentage points, or to about \$20,000 per worker instead of \$15,000.

Several factors have contributed to the rise in incentives. The track record of relocations has improved and become

secure new jobs. The vast wave of corporate shrinkage that has swept the US since the start of the decade has meant that unemployment has remained high.

Many states have had to face fiscal crunches and are keen to attract new corporate citizens that will generate state revenues. Tax relief "is part of the equation even if money is tight", says Mr Ady. Tax incentives for investors - particularly if they create new jobs - are on the books in most US states.

But like the companies looking for the best deal for relocation, states and cities have also become more shrewd about what they may be giving away. Many are now inserting what are known as "clawback clauses" into their relocation incentive deals.

These force the company to return the subsidies that the state or city provided if it does not live up to its agreement. The town of Ypsilanti, Michigan is, for example, suing General Motors over the company's decision to close its plant there. The town says that GM violated the agreement it made to provide employment in return for tax abatements.

Detroit and New York City have similar cases against other companies.

Nonetheless, traditional tax incentives, as well as infrastructure improvements and financing, usually through bonds, remain important items for negotiating a deal. Even utility companies are becoming more creative about luring corporate relocations using services, rate incentives, financing and community economic development programmes.

But states and cities as well as companies are turning to a broader than ever variety of other incentives. These can include incentives regarding acquisition of machinery, building of day care centres, assistance with finding housing for relocating employees and subsidised home mortgages.

In particular, training of the workforce is increasingly becoming the key incentive for many companies. In 1970, the typical PHH Fintus client did 90 per cent of its workforce

training in-house and just 10 per cent externally. Today, the company says its studies indicate that by 2000 those numbers will reverse.

Some states, such as Georgia and South Carolina, have programmes that will train a workforce to the required specifications of incoming investors. Other states are expected to follow suit with similar types of programmes in order to compete.

States can also feel that - instead of giving away their rights to tax revenues, infrastructure - training and other quality of life type incentives are attractions that will remain if a given company decides to move on.

One result of the greater array of incentives and the competition for corporate relocations is that searches are taking longer, according to Mr Ady.

BMW's selection of Spartanburg, South Carolina for its new US plant took three years. The length of the search has

There is no substitute for contact with the location and its people

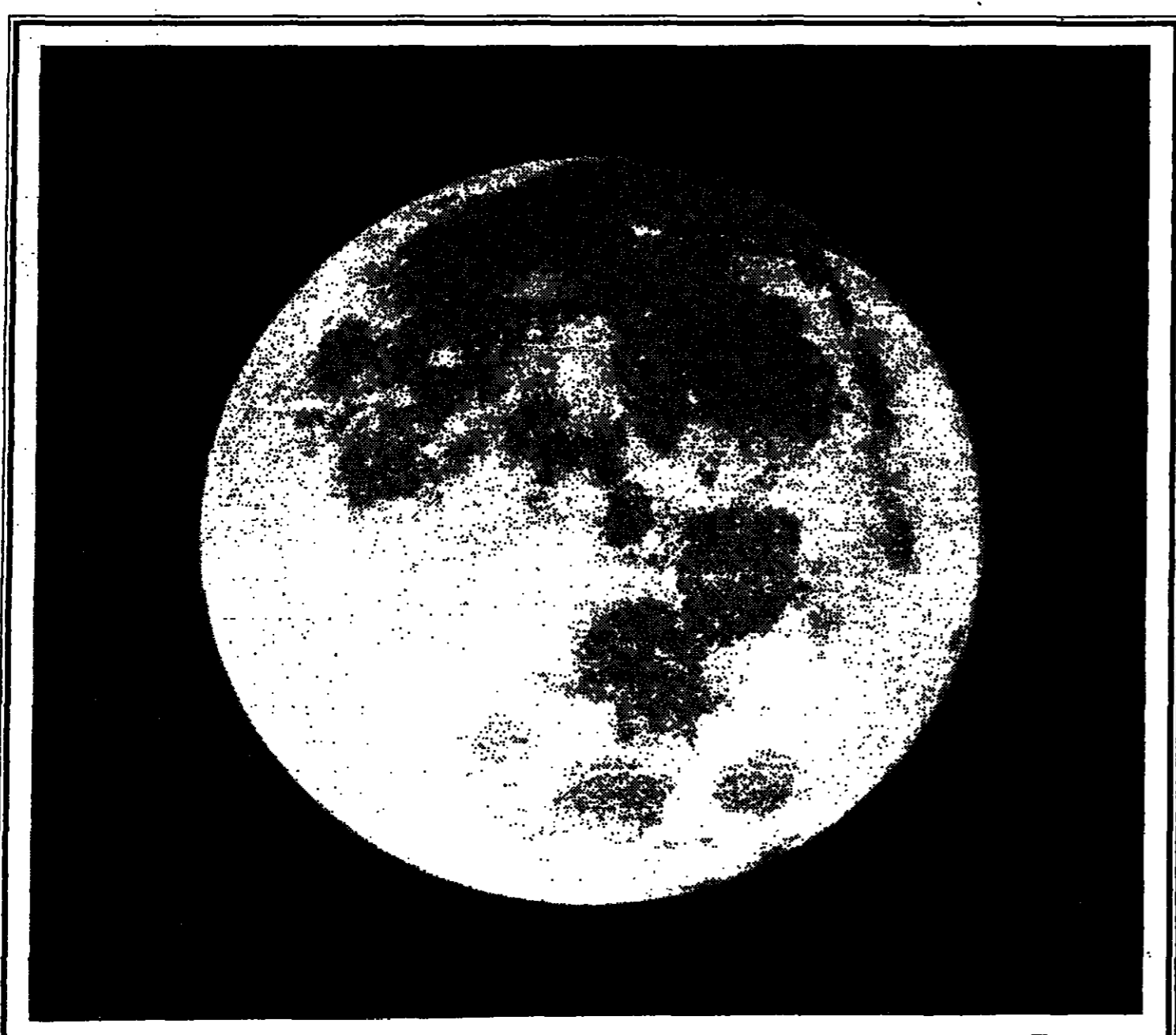
Increased because corporate relocations teams have become bigger, which has meant more complicated scheduling for trips to the site. And often the teams return to the site three or four times before a decision is made.

For foreign firms, this could also be an expensive proposition. But there is no substitute for personal contact with the location and its people. Given widespread American antipathy toward Japan, it is important for Japanese companies, in particular, to get a feel for the community's receptivity toward their investment.

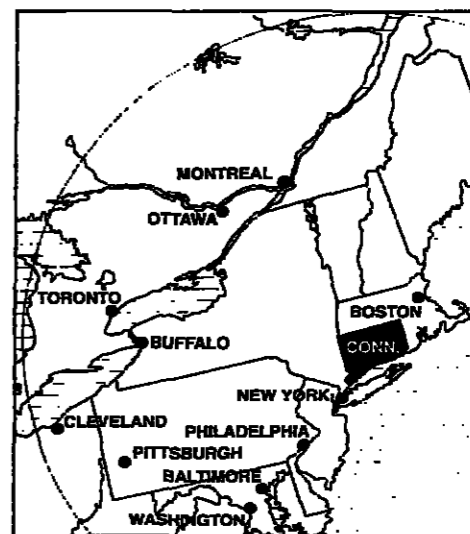
The presence of other foreign firms, especially those from one's own country, can also provide some comfort. In BMW's case, a number of other German firms, including Siemens, Bosch and Bayer are also in South Carolina.

Barbara Harrison

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LOCATING IN NORTH AMERICA 4

PROFILE: NFC

Seeking solutions overseas

WHEN NFC, the UK-based transport and logistics giant, decided to pack up its Home Services Division and move to North America a year ago, it was not looking for cheaper labour, a more favourable tax climate or relief from trade barriers. Its aim was to place a corporate division in the heart of its increasingly international business and in the process raise the company's profile in the minds of US investors.

Best known in Britain for its Pickfords and Hoult's Group home moving services, NFC viewed the US and Canada as prime markets for business expansion and sources of fresh investment capital. The company, which advertises itself as "the world's largest mover", has in recent years struggled to keep its UK operations profitable. A moribund UK property market has halved the company's home moving business there and had also depressed results from the home delivery services NFC's Merchants Group provides for UK retailers.

Other sectors of NFC businesses have also come under fire, with its big Logistics group undergoing reorganisation in 1991. Successive losses in its Pickford Travel unit resulted in the sale of the unit in 1991, with the remainder of NFC's Travel and Property

division being scaled down. Until UK interest rates decline and the domestic home mortgage market revives, NFC executives are looking to geographic expansion and product innovations to fuel growth, particularly in the Home Services Division.

When the division moved to North America, NFC was already deriving 30 per cent of its profits from US and Canadian operations and wanted to expand non-UK profits to 50 per cent by the end of 1992.

So Mr Denis Olliver, NFC's managing director of the Home Services Division, was not entirely surprised when the company's chief executive, Mr Jack Mather, called him into

institutional investor interest in the US.

"The relocation had become a shareholder issue. We wanted more visibility in the US and Canada," Mr Olliver said.

From a personal perspective, the relocation order was more of a jolt. "I had just that afternoon signed a contract for a new house. My wife had wanted to move closer to her mother and we had found a place just 6 miles away," Mr Olliver says, and "I told her we were moving, but that it was not going to be eight miles away from her mother, it was going to be 4,000."

Aside from the shareholder issues, the scope of NFC's

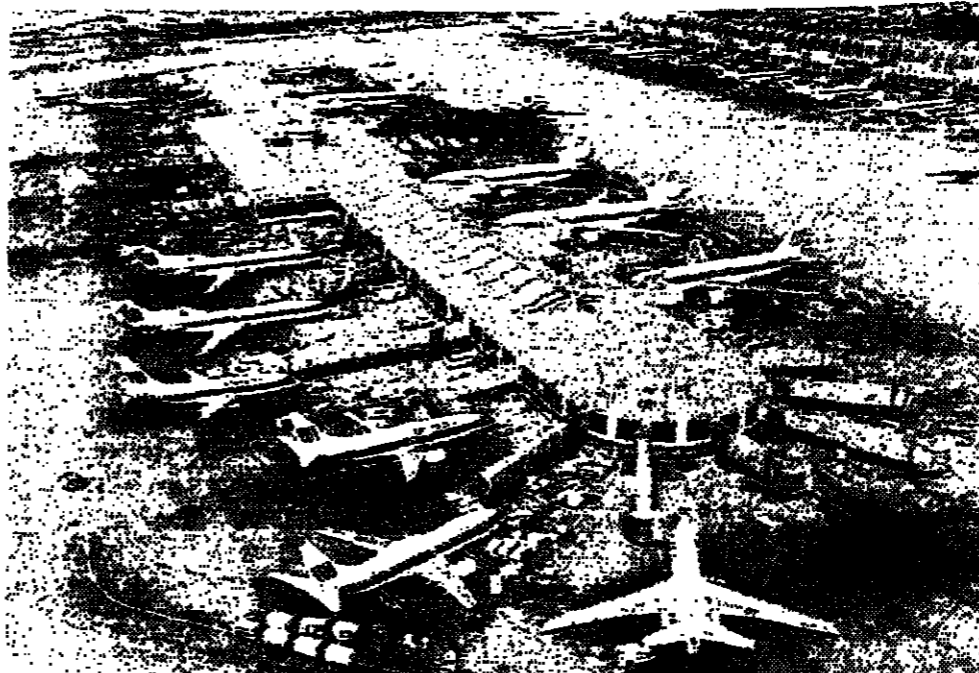
depending on the measure used. Orange and Black Allied trucks move households across the US, with Allied's profits holding at \$16m in 1991, in spite of a faltering US economy. NFC bolstered its home moving business this year by acquiring Allied Van Lines, Canada. It also operates Pickfords, Canada.

Another divisional business, California-based Merchants Home Delivery Service, was growing rapidly through acquisitions and successful marketing. Merchants' trucks and staff perform home deliveries of appliances and furniture for some of the US's largest retailers, including Sears, J.C. Penney's and Federated Department Stores, the parent of Bloomingdale's. Merchants, which had income of \$40m in 1990, grew to a \$120m business in 1991.

Separate from the Home Services Division, but still in North America, NFC-owned Exel Logistics was building a reputation as one of the largest independent providers of warehousing and distribution services in the US.

Anxious to accomplish the relocation relatively swiftly, NFC executives narrowed potential sites to Atlanta and three US cities where the subsidiary businesses were already headquartered.

Atlanta, with its warm weather, active international



Chicago's O'Hare International Airport: a big factor in the selection process

Picture: Guy Galt

airport and friendly business climate was attractive but the suburban Chicago location was finally selected.

"First, we liked its central location, within the US and globally. We have operations in Australia, Singapore, Hong Kong, Canada, Europe and the UK. In the UK we only had a one-hour overlap in the business day with Australia. In Chicago we overlap by several hours with the UK and Australia - we like the timeliness, the improved communications," Mr Olliver said.

Since Allied already had a well-established infrastructure in Chicago, NFC had only to

move the core of its Home Services staff. Legal, marketing, and other support staff were already in place. The marriage of the Allied office into a corporate divisional headquarters had the added benefit of giving US employees there more promotional opportunities within NFC. Although NFC employees are unionised in the UK, they are not in the US, and union issues were not a factor in the NFC move.

A big factor in the selection process for the globe-trotting executive was Chicago's O'Hare International Airport. A new international terminal is due to open at O'Hare in

mid-1993. The state-of-the-art terminal will double the amount of square footage devoted to international travellers and will have 21 gates, 150 ticketing positions and 38 customs inspection stations. A "people-mover" system will transport weary travellers to the central core of the airport.

NFC did not seek tax or other incentives from Chicago or Illinois to sweeten the move. "There wasn't time and I don't believe in them," Mr Olliver said. However, he said that Allied Van Lines did accept a tax and training incentive package from Mr Jim Thompson, then the governor of Illi-

ois, after it considered a move to Texas several years ago. The move - predictably for a company in the moving business - went well.

Executives say NFC is already benefitting from having input with "an American point of view". The cultural import was first seen in a revamp of the Home Services Division's marketing literature. "Everything we sent out to shareholders, all our communications, have been completely de-Anglicised," Mr Olliver says.

He says the managers of NFC's American companies now believe NFC has a better feel for their businesses. He also thinks that he gets a fresh viewpoint and exposure to new ideas. "What we try to do here is not keep re-inventing the wheel. If something is working in California, we try to see how it would work across all our operations. We have a real exchange of ideas worldwide."

Illinois-based NFC executives have also assisted in a \$20m computer revamp at Allied, a measure the company is undertaking to diversify Allied's services and leave it positioned for growth as the US economy recovers.

Real financial dividends of the relocation have yet to be measured. NFC was due to release its 1992 financial report in early October. Mr Olliver says the fading US economy will keep the Home Services division results flat for the year, but that revenue declines are not expected.

Laurie Morse

PROFILE: BMW

High hopes for new plant

"To be successful in the world, a company has to be successful in the United States," said Mr Eberhard von Kuenheim, chairman of BMW, as he broke ground for the company's new \$400m plant in South Carolina on September 30.

The German company, which searched the world for three years before deciding finally on the Spartanburg-Greenville area of South Carolina, says it concluded that to be competitive it had to have its own production facility within the US, the largest vehicle market in the world.

But the choice of South Carolina took some by surprise. The state is not known for car production and in the minds of many it remains backward, with some of the lowest educational rankings in the nation.

But the Spartanburg-Greenville area in the foothills of the Blue Ridge Mountains scores the highest per capita level of foreign investment in the US. Some 165 foreign companies from 17 nations are located there, according to the Greenville Chamber of Commerce. Of these, 58 are German - a factor that no doubt gave some extra comfort to BMW.

The German luxury car maker was lured by many of the same enticements as other international companies: rela-

tively low wages in a union-free environment, a first-rate state-operated training programme for workers, tax breaks, good transportation and a strongly pro-business climate.

In BMW's case, the incentives package totals about \$150m, not including the innovative programme that will custom train workers to BMW's specifications. The package includes:

- Acquisition for \$37m of 900 acres of land for the site by the South Carolina Ports

Authority. BMW will lease the site for \$1 a year;

- State and local government commitment of some \$23m in site preparation and infrastructure improvements such as water, sewerage and roads;
- State backing for a \$45m expansion of the Spartanburg-Greenville airport, although most of this expense will be covered by the federal government;
- State and local tax breaks worth \$71m over the next 20 years.

The price seems relatively

small, from South Carolina's point of view. For BMW will invest some \$400m in a 1.9m sq ft production facility and create some 2,000 jobs. And, it hints to local officials, if the market goes its way, that investment - and the number of jobs - could double by the end of the decade.

Some 21 manufacturers of vehicle parts and components are also expected to locate near the plant to supply BMW when it starts production in 1993. The state expects these to bring another \$282m in investment and create at least as many jobs as BMW.

Just in terms of payrolls, South Carolina estimates the direct and indirect economic impact of BMW's plant and its



Gov. Carroll Campbell: 'Our investment will be returned'

suppliers will be \$6.4bn over the next 20 years.

According to South Carolina Governor Carroll Campbell: "Our investment will be returned to state and local

governments in less than five years."

For BMW the relocation is also a good deal. It estimates that production costs in South Carolina will be roughly one third less than those of Germany. The key factor for such reduced costs will be low hourly wages for South Carolina's workers. When the plant opens in 1993, wages are estimated to run to about \$10 to \$15 an hour compared with \$28 in Germany.

The United Auto Workers union, which retains its grip on US vehicle production, is vowing to organise the plant. UAW wages average about \$16 per hour. But the union's battle will be uphill in this traditionally anti-union state. The Spartanburg-Greenville area is one of the least unionised areas of the US and local business leaders say they intend to keep it that way.

Moreover, resistance from the company can be expected. Mr Helmut Panke, BMW chief

of planning, said: "We don't think we need an intermediary between our employees and management."

The company will produce a new model - the details of which it declines to reveal - in South Carolina for the US and export markets. One thing is known about the new model: its price tag will be less than the \$30,000 US luxury tax mark.

BMW's hopes for the new US plant are high. It wants the plant to help it regain the level of sales - nearly 100,000 units a year - that it enjoyed during its heyday in the US market in the mid-1980s.

And, although US consumers have been emphasising value rather than luxury since the start of this decade, BMW's 27 per cent increase in American sales from January through August this year is spurring company dreams of glory days to come.

Barbara Harrison



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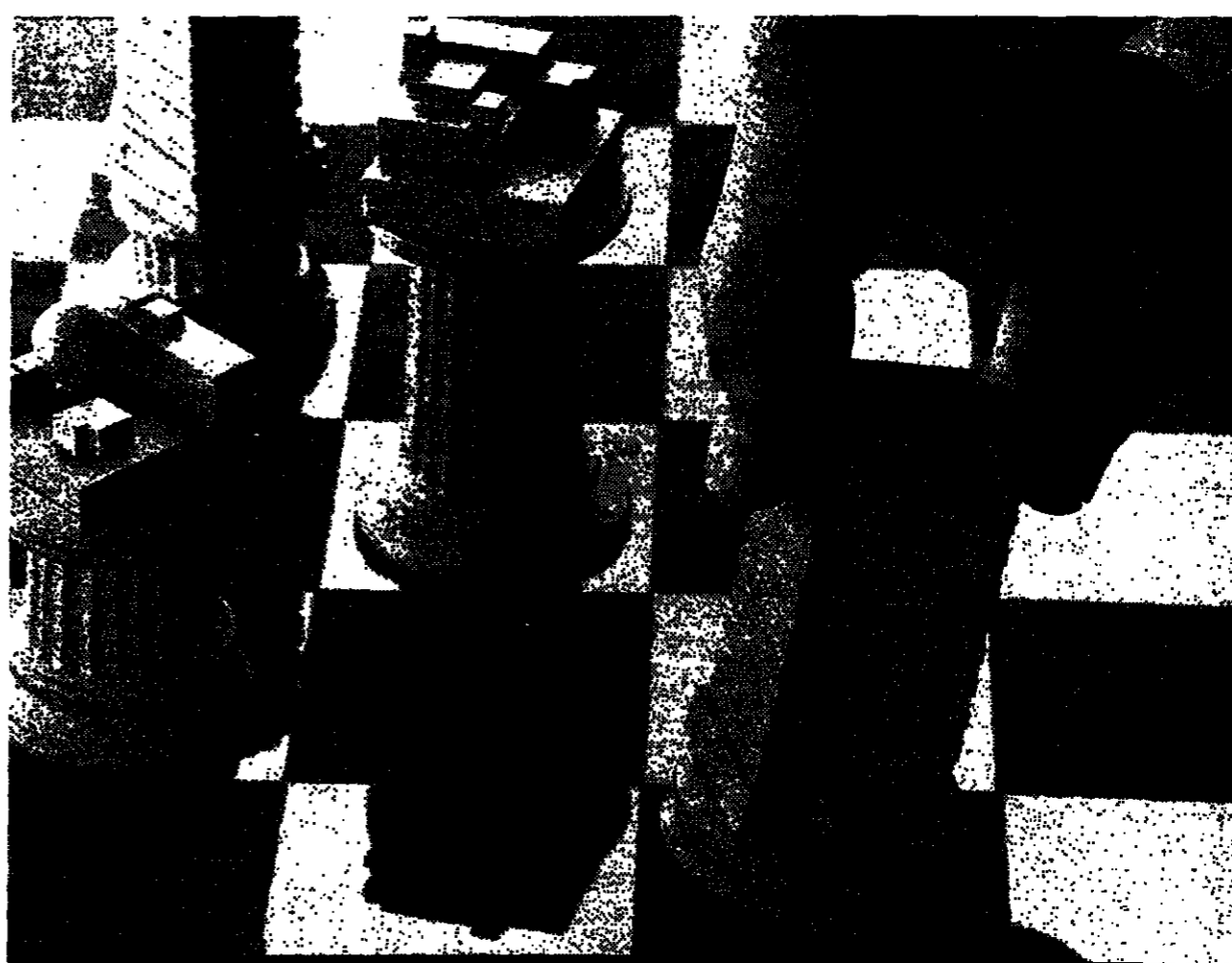
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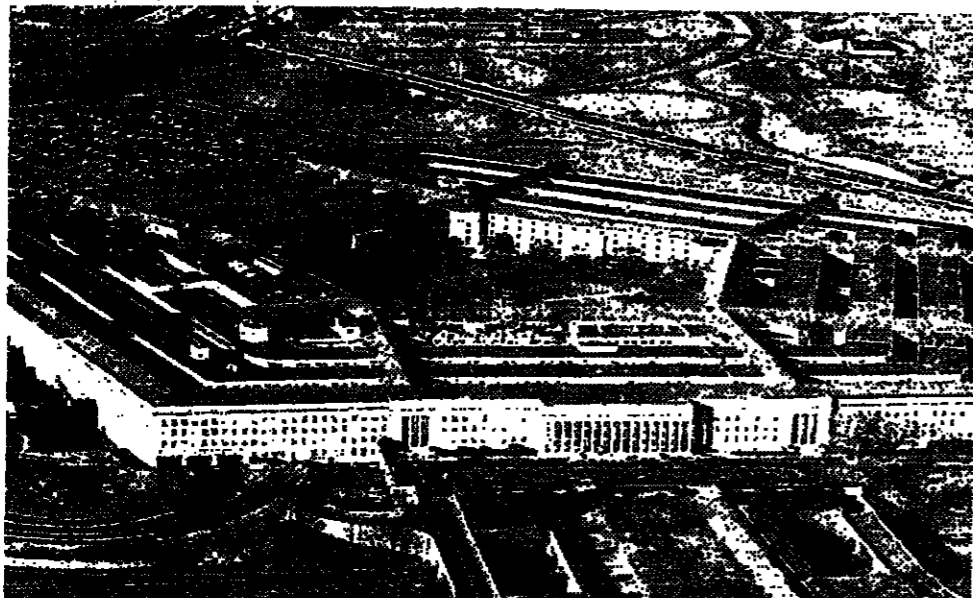
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LOCATING IN NORTH AMERICA 5



The Pentagon: its budget cuts were one of the factors which hit New England's defence industries

US REGIONS

Conglomeration of economies

CALIFORNIA is suffering its most severe recession since the Second World War. Yet the state of Washington remains relatively buoyant. And in New England, which has been struggling with recession for four years, there are the first, faint, glimmerings of recovery.

The US is not so much a single economy as a conglomeration of regional economies, each with its distinctive cycle of growth and recession; each with its comparative advantages and disadvantages. A business planning to locate in North America cannot afford to ignore these differences - or forecasts of relative long-term

growth and population movement.

The recession of 1990-91, from which the US is emerging with painful slowness, hit the west and east coasts of the country far harder than the middle.

New England was the first region to slide, as the so-called "Massachusetts Miracle" - of above national average growth - came to an end. The region's important defence industries suffered from Pentagon budget cuts, its large computer companies floundered, over-optimistic speculative building left a huge property overhang, and one of the largest regional

banks was left insolvent.

However, the economy now appears to have stabilised, with further cuts in defence-related jobs offset by pick-ups in other areas such as health care. But while house-building is picking up, economists suggest any sustained recovery will be extremely slow. Over the long term, this crowded region, with relatively high property prices, will face a fight for jobs with the fast-growing and cheaper Sunbelt region of the south.

But the term Yankee ingenuity originated in New England and the region's comparative advantages include a highly educated workforce, a concentration of fine universities, and a complex of high technology businesses.

New York and the Middle Atlantic region, just down the coast from New England, have also been hit hard by the recession.

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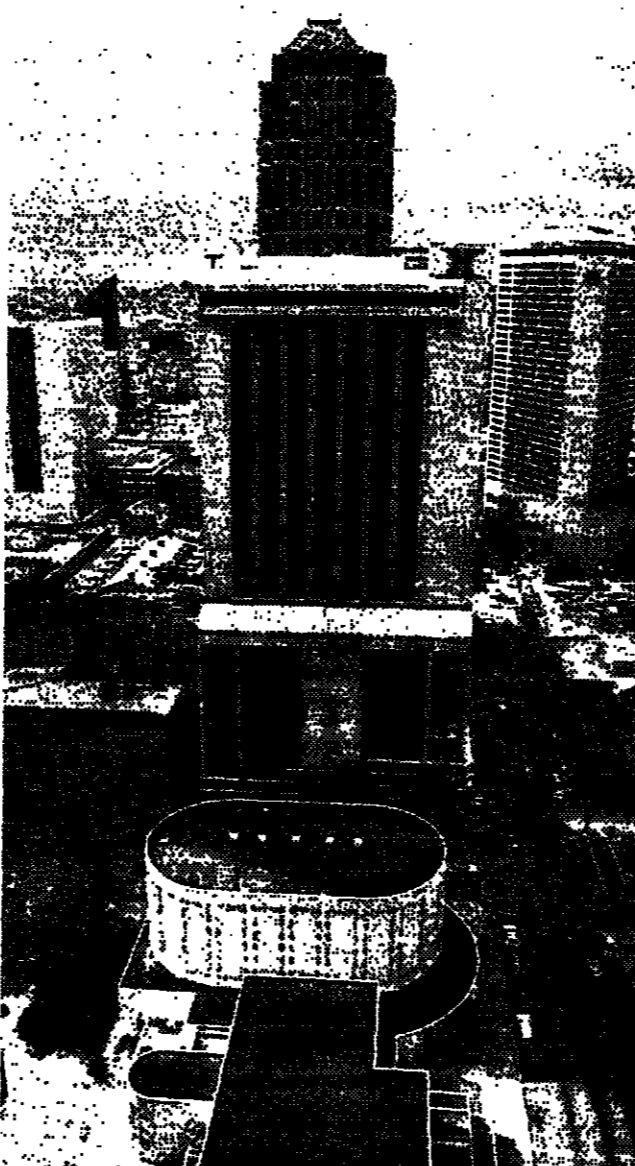
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Seattle: The Californian malaise has benefitted the north-west

The south-east, which ranges from Virginia through to Florida, has been harder hit by the recession than any region other than the north-east, although it was one of the fastest growing regions of the country in the 1980s as companies and population moved south to take advantage of its low costs and pleasant climate.

The region is expected to grow somewhat faster than the national average as the US emerges from recession. Florida will be helped by Miami's increasingly important role as a Latin American trading centre.

Atlanta, Georgia, currently the most popular city in the US for corporate and government relocations, is also expected to see good growth, helped by its high technology and service industries and its capture of the 1996 Olympic Games.

The mid-western Great Lakes region, centred on Chicago, has suffered only the mildest of recessions, thanks to a property market which never became too overheated in the 1980s and the restructuring during that decade of its heavy "rust-belt" industries.

It is expected to perform well as the nation moves out of recession and demand picks up for its consumer durable goods and capital equipment.

The west-central and mountain states regions, including such states as South Dakota, Wyoming, Utah and Colorado, have been the strongest performers in the US over the past two years.

The mountain states have grown at about 2 per cent a year, albeit from a very small economic base compared to other regions of the country.

But it is the region's very lack of development which is now spurring growth.

Businesses are attracted by its low costs and taxes and a positive work ethic in areas such as Utah, with its large Mormon population.

Employees are attracted by the region's wide, open spaces and dazzling mountain scenery.

Some economists are forecasting an acceleration of growth to 4 per cent as the nation comes out of recession.

The mountain states have been a prime beneficiary of problems in California, where high taxes and property and

labour costs, coupled with very restrictive environmental regulations, have been encouraging companies to relocate elsewhere.

The north-western region, centred on Seattle, has also benefited economically from the Californian malaise, as large numbers of Californians have migrated north, attracted by lower living costs and the area's scenic beauty.

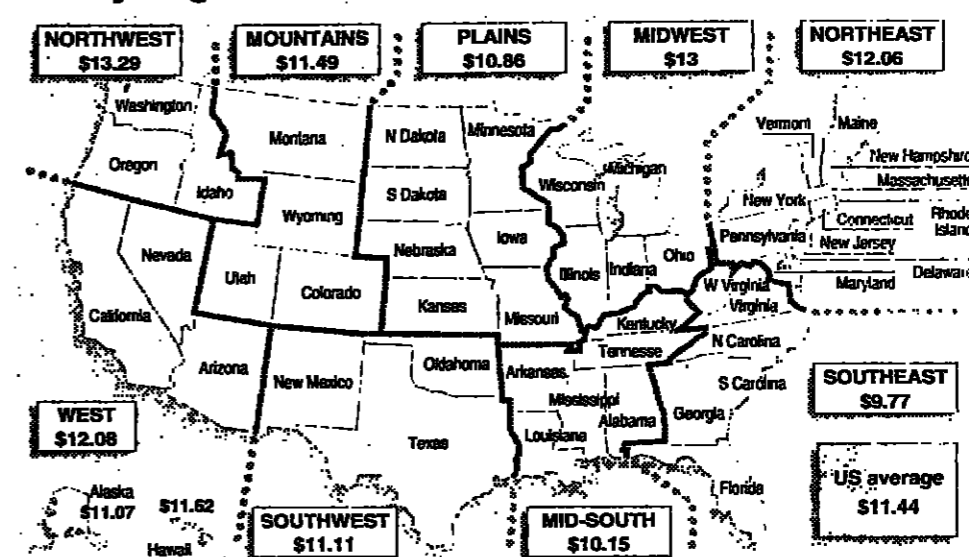
The north-west, which has enjoyed above-average growth in recent years, could suffer badly if Boeing, the aircraft company headquartered in Seattle, is hit by a prolonged



New York needs to reduce high labour and property costs if it is to prosper

Pictures: Glyn Genter

Hourly wage rates for manufacturing*



Source: PHF Factus

* Regional weighted average

recession in the airline industry.

Over the long-term, however, the region stands to benefit strongly from Boeing's presence, a growing high technology sector and important trading links with Japan and other Asian countries.

Despite California's problems, the state remains a mecca for Americans migrating from other states, and Mexicans heading north, although the flow has diminished from the dramatic population expansion witnessed in the 1980s.

California has been hit much

harder by recession than most economists forecast, with job losses in its important defence industries, financial services and the construction industry.

To this have been added a string of earthquakes, forest fires and the destruction caused by this year's Los Angeles riots.

The Business Forecasting Project at the University of California, Los Angeles, which has tended to be more pessimistic than rival analysts, now suggests recovery may not happen until the final months of next year.

Texas, which suffered a

severe recession in the mid-1980s thanks to a wild construction spree and falling oil prices, has since bounced back and grew about 1.5 per cent last year, thanks to an industrial diversification which makes it far less dependent on the energy sector.

The region has become an important high-technology centre and stands to benefit more than almost any other from the increased cross-border business which will follow the establishment of a North American Free Trade Area.

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COMMODITIES AND AGRICULTURE

Little to celebrate at LME's annual shindig

Sagging prices and soaring stocks are casting a shadow over the exchange, writes Kenneth Gooding

THOUSANDS OF metals producers, consumers and traders are this week paying their annual homage to the most international market in the world: the London Metal Exchange. But there is a hollow ring to the celebrations. Gloom caused by a recent and sudden collapse in metals prices keeps intruding.

At least half of worldwide contracts for the six metals traded on the exchange are related directly to LME prices. And for much of this year prices were doing quite well. By the end of September, the LME-traded metals were showing price gains since the beginning of 1992 ranging from 14 per cent for tin to a more modest 5.5 per cent for lead.

But evidence that these prices were giving false signals was clear to see: recession persisted in North America and parts of Europe; growth was slowing rapidly in Germany and Japan, which, with the US, provide the biggest markets for metals.

LME stock levels were rising as prices were going up, an unusual phenomenon, as any schoolboy economist will tell you. "We had prices that simply could not be justified by fundamental conditions," Mr Philip Crowson, chief economic adviser at the RTZ Corporation, the world's biggest mining company, points out. "People who thought those prices were justified were living in a fool's paradise."

He suggests that a new and volatile source of demand for LME metals was at work. Some heavyweight financial institutions had begun to invest in commodities for the first time in ten to 15 years to diversify their portfolios. "Given the size of the metals markets, only a small shift in fund investment pushes prices up substantially," Mr Crowson points out.

Compared with other financial markets, the LME is relatively small, he says. The total value of all its metal stocks was only about \$2.2bn at the start of

"There have been occasions in the past year when big players in the LME's copper, aluminium and zinc markets provided price support - more than the

year. However, the copper market was more or less in balance and tin stocks were falling, thanks to the efforts of the Association of Tin Producing

more or less doubled since the end of 1990 and "this obviously is the result of Russian shipments to the west." Deliveries of nickel from the CIS [Commonwealth of Independent States] to the west in the first half of this year might have been as much as 50,000 tonnes, roughly in line with exports in the same months last year. "Indeed, there might even have been a growth in deliveries," he says.

Recorded deliveries of aluminium from the CIS to the west were running at an annualised rate of 500,000 tonnes compared with 500,000 in 1991. Mr Davies points out. It would take a big fall in exports in the second half to produce a significant drop in CIS aluminium deliveries this year.

Analysts say it is now clear that there will be no short-term industrial growth to produce a demand-led recovery in metal prices. So there have been widespread and vociferous calls for production cuts.

Western World Supply and Consumption (thousand tonnes)

	1992 Jan-June	1991 Jan-June	1992 Jan-June	1991 Jan-June
Aluminium			Nickel	
Supply	7,839	7,880	Supply	337
Consumption	7,882	7,547	Consumption	312
Copper			Tin	
Supply	4,845	4,438	Supply	78
Consumption	4,587	4,490	Consumption	91
Lead			Zinc	
Supply	2,175	2,245	Supply	2,734
Consumption	2,171	2,205	Consumption	2,681

Source: World Bureau of Metal Statistics. Supply figures include net east-west trade.

1992 and \$3.4bn in late August. "The cost of buying up old existing stocks of some individual metals would be relatively low, although only a portion is needed to influence the market."

Investment interest from the funds has helped drive LME turnover - which is much greater than the value of its stocks - to record levels this year. Mr Crowson, who is an LME director, suggests: "This is fine as long as the institutions pay more than lip service to portfolio asset management - but not if they become mesmerised by patterns of prices on charts."

Some traders admit that, while the funds were making the running, they had to concentrate on trying to guess what they might do next. Traders took their attention away from the real world of falling demand and rising metal supply surpluses.

Now the funds seem for the time being to have quit, bringing the market down to earth with a nasty bump. Ms Lesley Campbell, a trader at Rudolf Wolff, part of the Noranda natural resources group, explains:

Fundamentals have justified. Too many blind eyes were turned away from the fundamentals for too long."

Mr Nick Moore, analyst at Ord Minnett, a subsidiary of the Westpac banking group, says: "The commodity funds have been financing the record LME stockpiles. Now they are liquidating their positions."

"The market has completed a complete U-turn since August, he says. "Suddenly the market realised that economic recovery was not happening, it would be longer delayed and more muted than expected. A short, sharp fall in growth was expected in Japan, now it looks as if it will be a protracted fall."

No wonder the OECD says that domestic product growth in its member countries this year is now expected to be a maximum of 1.5 per cent when at the beginning of this year it was predicting growth of 2.3 per cent.

As the accompanying figures from the UK-based World Bureau of Metal Statistics show, most of the LME metals were building supply surpluses during the first half of this

half, but that trend has since been reversed as new smelters have come on stream and mothballed units have reopened.

Aluminium and nickel have been hit hard not only by slowing industrial activity but also by the upsurge in exports from the former Soviet Union. Mr Lloyd Davies, general manager of the WBMS, points out that commercial nickel stocks have

1992 Base Metal Prices (cents a lb)

	Now	Year's high	Year's low	Average to date	1991 average
Copper	101.15	117.21	94.87	104.64	106.01
Aluminium	52.75	61.06	50.15	57.79	59.10
Tin	288.53	327.72	248.00	282.93	290.12
Lead	24.58	30.98	22.26	25.52	25.29
Zinc	50.39	65.95	48.00	58.34	50.59
Nickel	276.42	371.72	276.42	332.58	370.37

Source: Societe Generale Syntex Turnover Securities.

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"There is no light at the end of the tunnel. Without meaningful production cuts prices will deteriorate further," says Mr Brian Worthington, head of the mining team at the S.G. Warburg Securities financial services group.

Ord Minnett's Mr Moore suggests: "The only cause is lack of demand from the producers. The choice is simple - cut back refined metal production or

Russia reaches deal with Yakutia on diamond profits

By Dmitri Volkov and John Lloyd in Moscow

THE RUSSIAN government and the diamond-producing region of Yakutia - now called Sakha - have signed an agreement that has been hailed as a model for the decentralisation of government authority to the autonomous republics of the Russian Federation.

The agreement, signed by Mr Yegor Gaidar, the acting prime minister of Russia and Mr Mikhail Nikolayev, President of Yakutia, allows a sharing of the diamond revenues from the region, which produces almost all of the country's diamonds. A new joint stock company, "Diamonds of Russia-Sakha", will be 40 per cent controlled by Yakutia, with 32.5 per cent of the shares held by the Russian government.

The agreement appears to end a long struggle between the autonomous republic and the central government on control of the diamonds, in the course of which an agreement giving both governments an equal share in the proceeds of diamond sales was repudiated by Yakutian officials. The

republic has claimed independence from Moscow.

Mr Gaidar said that the agreement "proves that economic structures are being decentralised in Russia". Various regions and autonomous republics within Russia, including the oil-producing Tyumen region, have demanded more freedom in controlling and benefitting from hard currency exports.

Almazynvirexport, the diamond trading company that markets Russian diamonds through an agreement with the South African company De Beers, which controls most of the world diamond trade through its London-based Central Selling Organisation, is to be incorporated into the new company.

Mr Leonid Gurevich, head of a parliamentary commission set up to oversee diamond sales, said that the industry urgently required new investment. He said this would form one of the conditions set in forthcoming negotiations with De Beers on a renegotiation of the contract between the South African and the Russian companies.

Research shows benefits of lower pesticide use

By David Blackwell

TWO STUDIES just published look at the links between farming and the environment and highlight the growing importance to the agricultural industry of countryside management.

The first is a Ministry of Agriculture publication on the findings of its pioneer study of pesticide use at its research centre at Boxworth in Cambridgeshire. One of its main messages to the farmer is that using less pesticide can improve gross margins in spite of lower yields.

Tests were made over nine years on a total area of more than 120 hectares (296 acres). Using a comprehensive insurance policy of routine applications to eliminate any possibility of pests, weeds or disease led to wheat yields of 7.74 tonnes a hectare and a gross margin of £454 a hectare. But more considered use halved the number of applications in a year, leaving a yield of 6.84 tonnes a hectare and a gross margin of £477.

What was considered low usage of chemical treatments during the Boxworth experiment between 1981 and 1990

now looks high - an indication of how much pesticide use has fallen over the last few years.

The Agriculture Ministry and the Royal Institution of Chartered Surveyors have jointly funded a study by a team from Wye College in Kent into the economics of greener farming practices. The resulting pamphlet, published yesterday, is the first time that government initiatives such as the Environmentally Sensitive Area schemes have been thoroughly analysed.

Mr Nicholas Woolley of the RICS said that taxpayers had a right to know if they were getting value for money, while farmers needed to know the benefits to them. In some areas, for example, ESA payments had increased farm income, but reduced the market value of the land.

Pesticides, Cereal Farming and the Environment - The Boxworth Project. Ed. Peter Greg-Smith, Geoff Frampton, Tony Hardy, HMSO, pp 228, 15s. *The Cost of Care: The Costs and Benefits of Environmentally Friendly Farming Practices.* By Paul Hill, Bryan Green and Angela Edwards. RICS Paper No 15, pp 87, 24.95.

Caribbeans step up pressure for EC decision on banana regime

By David Dodwell, World Trade Editor

CARIBBEAN BANANA exporters have no preference for either a quota-based or a tariff-based banana import regime in the European Community - as long as the EC stands by obligations to them under the Lomé Convention, according to Mr John Compton, prime minister of St Lucia.

His comments come at a time of mounting pressure to put an EC-wide banana regime in place ahead of the creation of the European single market on January 1, 1993.

Commission proposals for a quota-based system have

attracted criticism because of their complexity, and the scope they provide for abuse.

Amid claims that the EC has not adequately explored tariff-based options, the current proposals are intended to insulate Lomé promises to protect the livelihoods of Caribbean islanders against unfettered multinational competition. Many Caribbean islands - including St Lucia - are heavily dependent on banana exports, and fear political upheavals if EC market access is undermined.

"The EC has come up with a breakthrough in the long-stalled Uruguay Round of talks on world trade liberalisation - which aim to replace quota

arrangements with tariffs in all areas of international trade - would make any quota-based regime unacceptable to the General Agreement on Tariffs and Trade, the Geneva-based world trade watchdog.

At the end of a diplomatic tour of Europe embracing Germany, Ireland and the UK and intended to get EC member states to reaffirm their treaty commitments under the Lomé Convention, Mr Compton said tariffs or quotas were a matter of "mechanics".

"The EC has come up with the mechanics. They are not a matter for us," he said. "Whether proposals for future banana trade are tariff-based,

or quota-based, we will examine them to see whether they discharge Europe's obligations under Lomé."

Mr Compton also expressed concern that EC member states opposed to quotas would simply drag out discussions in search of a solution. "We have to try to solve the issue before January 1," he said.

Successive Lomé agreements have assured the small economies of the Caribbean access to the EC for their banana exports "on terms and conditions no less favourable than those enjoyed in the past".

Grown by smallholders in difficult farming terrain, comparatively expensive Caribbean

bananas have been able to maintain a 20 per cent share of the EC market of 3.3m tonnes by virtue of quotas from former colonial powers like the UK and France.

Cheaper so-called "dollar" bananas imported from Latin American states like Colombia and Ecuador have a dominant share of the market, particularly in Germany. It is assumed that without an EC-wide arrangement to protect traditional Caribbean suppliers, free trade in bananas across the single market would annihilate their market share.

Mr Compton did not expect the "sweetheart deal" that Caribbean countries were guar-

anteed under Lomé would be renewed when it had to be replaced in the year 2000; but he expected the EC to stand by existing commitments, allowing time to diversify.

"We need to diversify, and to show that our fruit is not only of better quality and taste, but of a different variety, with a niche market - but all of this takes time and resources," he said. "There can't be any diversification without bananas. They give us a guarantee of shipping. Every Thursday, we can look out of the window and know we can see the banana boat. Without the banana crop, you wouldn't have shipping lines showing any interest."

WORLD COMMODITIES PRICES

MARKET REPORT

GOLD closed around the day's lows on the London bullion market. The recent failure of two attempts to breach resistance around \$343 a troy ounce prompted a test of the downside. The market failed to derive much support from the continued weakness of the dollar. London COCOA, supported by a firm New York market, edged back into the plus column in the afternoon in a mild correction to Tuesday's sharp fall, while robust COFFEE also extended gains as New York's December arabica contract broke through key resistance

at 55.70 cents a lb in early trading. The New York gains were on technically driven fund and commission house buying, but analysts said coffee's downturn was still intact. On the LME, most BASE METALS, apart from nickel, spent the day in narrow trading ranges. Bargain hunting purchases on dips, especially due to the hedge dollar, were met by sellers on rallies. But the pace of trading was slow and markets were thin. NICKEL broke below the bottom end of its recent trading range.

Compiled from Reuters

London Markets

SPOT MARKETS
Crude oil (per barrel FOB Dec) +0.05
Dubai \$18.50-8.00 -0.05
Brent Blend (dated) \$20.70-7.00 -0.05
Brent Blend (Dec) \$20.75-8.00 -0.05
WTI (11 pm spec) \$22.50-2.25 +0.05

OR PRODUCTS
HNE prompt delivery per tonne CIF

Proton Gasoline \$217.220 +0.1
Gas Oil \$201.520 +0.5
Heavy Fuel Oil \$162.104
Naphtha \$191.198 -2.5

Petroleum Argus Estimates

Other

Gold (per troy oz) \$342.95 +0.5
Silver (per troy oz) \$373.50 +0.5
Platinum (per troy oz) \$358.65 +1.3
Palladium (per troy oz) \$394.75 +0.5

Copper (US Producer) 104.50
Lead (US Producer) 35.50
Tin (Kuala Lumpur market) 14.95
Tin (New York) 272.50
Zinc (US Prime Western) 62.00

Cattle live weight 105.80p
Sheep live weight 74.80p
Pigs live weight 47.41p +0.57

London daily sugar (raw) \$227.00
London daily sugar (white) \$228.50
Tale and Lyle export price \$248.00 +3

Barley (English feed) \$132.37p
Maize (US No 3 yellow) \$141.00
Wheat (US Dark Northern) Unq

Rubber (Nov) 60.25p +0.25
Rubber (Dec) 60.00p +0.25
Rubber (KL RSS No 1 Oct) 223.5m

Coconut oil (Philippines) \$490.00 -5
Palm oil (Malaysia) \$400.00 -2.5
Cocoa (Philippines) \$325.00 -5
Soyabean (US) \$215.00 -3
Cotton "A" Index 52.70p
Wooltops (44 Super) 411p +8

C 3 tonne units otherwise stated. p=per cent, c=cent, f=futures, t=tender, m=month, y=year, Dec=Dec, Jan=Jan, Feb=Feb, Mar=Mar, Apr=Apr, May=May, Jun=Jun, Jul=Jul, Aug=Aug, Sep=Sep, Oct=Oct, Nov=Nov, Dec=Dec.

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SUGAR - London FOX (\$ per tonne)

Raw Close Previous High/Low

Dec 195.00 195.00 195.00
Jan 195.00 195.00 195.00
May 195.00 201.00 199.00

White Close Previous High/Low

Dec 258.00 258.00 258.00 258.00
Mar 258.00 258.00 258.00 258.00
May 258.00 258.00 258.00 258.00

Turnover: Raw 22 (30 lots) of 50 tonnes. White 48 (800) Pairs. White (77) per tonne. Dec 195.00 Mar 194.00

CRUDE OIL - LME (\$/barrel)

Close Previous High/Low

Dec 20.75 20.75 20.75 20.75
Jan 20.75 20.75 20.75 20.75
Mar 20.75 20.75 20.75 20.75

Dec 20.75 20.75 20.75 20.75
Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

Dec 20.75 20.75 20.75 20.75
Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

Dec 20.75 20.75 20.75 20.75
Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

Dec 20.75 20.75 20.75 20.75
Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

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Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

Dec 20.75 20.75 20.75 20.75
Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

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Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

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Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

Dec 20.75 20.75 20.75 20.75
Mar 20.75 20.75 20.75 20.75
May 20.75 20.75 20.75 20.75

COCOA - London FOX (\$/tonne)

Close Previous High/Low

Dec 695 695 695 695
Mar 695 695 695 695
May 695 695 695 695

Dec 720 720 720 720
Mar 720 720 720 720
May 720 720 72

FT MANAGED FUNDS SERVICE • Current Unit Trust prices are available from FT Cityline. For further details call (071) 926 2128.

OTHER UK UNIT TRUSTS									
Unit Trust	Manager	Investment Objective	Assets (£m)	Units	Price	Change	Yield	Rating	Notes
Standard Life Unit Trusts Ltd (07303)									
Standard Life UK	Standard Life	UK Stocks	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe	Standard Life	European Stocks	800	80	0.80	+0.01	5.2%	A	
Standard Life US	Standard Life	US Stocks	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan	Standard Life	Japanese Stocks	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia	Standard Life	Australian Stocks	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia	Standard Life	Asian Stocks	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa	Standard Life	African Stocks	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America	Standard Life	Latin American Stocks	100	10	0.10	+0.01	11.0%	A	
Standard Life Bonds	Standard Life	UK Bonds	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Bonds	Standard Life	European Bonds	800	80	0.80	+0.01	5.2%	A	
Standard Life US Bonds	Standard Life	US Bonds	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Bonds	Standard Life	Japanese Bonds	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Bonds	Standard Life	Australian Bonds	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Bonds	Standard Life	Asian Bonds	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Bonds	Standard Life	African Bonds	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Bonds	Standard Life	Latin American Bonds	100	10	0.10	+0.01	11.0%	A	
Standard Life Money	Standard Life	Money	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Money	Standard Life	European Money	800	80	0.80	+0.01	5.2%	A	
Standard Life US Money	Standard Life	US Money	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Money	Standard Life	Japanese Money	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Money	Standard Life	Australian Money	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Money	Standard Life	Asian Money	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Money	Standard Life	African Money	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Money	Standard Life	Latin America Money	100	10	0.10	+0.01	11.0%	A	
Standard Life Real Estate	Standard Life	Real Estate	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Real Estate	Standard Life	European Real Estate	800	80	0.80	+0.01	5.2%	A	
Standard Life US Real Estate	Standard Life	US Real Estate	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Real Estate	Standard Life	Japanese Real Estate	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Real Estate	Standard Life	Australian Real Estate	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Real Estate	Standard Life	Asian Real Estate	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Real Estate	Standard Life	African Real Estate	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Real Estate	Standard Life	Latin America Real Estate	100	10	0.10	+0.01	11.0%	A	
Standard Life Commodity	Standard Life	Commodity	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Commodity	Standard Life	European Commodity	800	80	0.80	+0.01	5.2%	A	
Standard Life US Commodity	Standard Life	US Commodity	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Commodity	Standard Life	Japanese Commodity	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Commodity	Standard Life	Australian Commodity	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Commodity	Standard Life	Asian Commodity	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Commodity	Standard Life	African Commodity	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Commodity	Standard Life	Latin America Commodity	100	10	0.10	+0.01	11.0%	A	
Standard Life Hedge	Standard Life	Hedge	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Hedge	Standard Life	European Hedge	800	80	0.80	+0.01	5.2%	A	
Standard Life US Hedge	Standard Life	US Hedge	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Hedge	Standard Life	Japanese Hedge	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Hedge	Standard Life	Australian Hedge	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Hedge	Standard Life	Asian Hedge	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Hedge	Standard Life	African Hedge	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Hedge	Standard Life	Latin America Hedge	100	10	0.10	+0.01	11.0%	A	
Standard Life Derivative	Standard Life	Derivative	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Derivative	Standard Life	European Derivative	800	80	0.80	+0.01	5.2%	A	
Standard Life US Derivative	Standard Life	US Derivative	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Derivative	Standard Life	Japanese Derivative	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Derivative	Standard Life	Australian Derivative	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Derivative	Standard Life	Asian Derivative	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Derivative	Standard Life	African Derivative	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Derivative	Standard Life	Latin America Derivative	100	10	0.10	+0.01	11.0%	A	
Standard Life Alternative	Standard Life	Alternative	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Alternative	Standard Life	European Alternative	800	80	0.80	+0.01	5.2%	A	
Standard Life US Alternative	Standard Life	US Alternative	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Alternative	Standard Life	Japanese Alternative	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Alternative	Standard Life	Australian Alternative	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Alternative	Standard Life	Asian Alternative	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Alternative	Standard Life	African Alternative	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Alternative	Standard Life	Latin America Alternative	100	10	0.10	+0.01	11.0%	A	
Standard Life Special	Standard Life	Special	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Special	Standard Life	European Special	800	80	0.80	+0.01	5.2%	A	
Standard Life US Special	Standard Life	US Special	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Special	Standard Life	Japanese Special	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Special	Standard Life	Australian Special	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Special	Standard Life	Asian Special	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Special	Standard Life	African Special	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Special	Standard Life	Latin America Special	100	10	0.10	+0.01	11.0%	A	
Standard Life Global	Standard Life	Global	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Global	Standard Life	European Global	800	80	0.80	+0.01	5.2%	A	
Standard Life US Global	Standard Life	US Global	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Global	Standard Life	Japanese Global	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Global	Standard Life	Australian Global	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Global	Standard Life	Asian Global	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Global	Standard Life	African Global	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Global	Standard Life	Latin America Global	100	10	0.10	+0.01	11.0%	A	
Standard Life International	Standard Life	International	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe International	Standard Life	European International	800	80	0.80	+0.01	5.2%	A	
Standard Life US International	Standard Life	US International	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan International	Standard Life	Japanese International	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia International	Standard Life	Australian International	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia International	Standard Life	Asian International	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa International	Standard Life	African International	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America International	Standard Life	Latin America International	100	10	0.10	+0.01	11.0%	A	
Standard Life World	Standard Life	World	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe World	Standard Life	European World	800	80	0.80	+0.01	5.2%	A	
Standard Life US World	Standard Life	US World	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan World	Standard Life	Japanese World	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia World	Standard Life	Australian World	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia World	Standard Life	Asian World	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa World	Standard Life	African World	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America World	Standard Life	Latin America World	100	10	0.10	+0.01	11.0%	A	
Standard Life Universal	Standard Life	Universal	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Universal	Standard Life	European Universal	800	80	0.80	+0.01	5.2%	A	
Standard Life US Universal	Standard Life	US Universal	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Universal	Standard Life	Japanese Universal	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Universal	Standard Life	Australian Universal	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Universal	Standard Life	Asian Universal	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Universal	Standard Life	African Universal	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Universal	Standard Life	Latin America Universal	100	10	0.10	+0.01	11.0%	A	
Standard Life All-World	Standard Life	All-World	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe All-World	Standard Life	European All-World	800	80	0.80	+0.01	5.2%	A	
Standard Life US All-World	Standard Life	US All-World	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan All-World	Standard Life	Japanese All-World	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia All-World	Standard Life	Australian All-World	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia All-World	Standard Life	Asian All-World	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa All-World	Standard Life	African All-World	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America All-World	Standard Life	Latin America All-World	100	10	0.10	+0.01	11.0%	A	
Standard Life Multi-Asset	Standard Life	Multi-Asset	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Multi-Asset	Standard Life	European Multi-Asset	800	80	0.80	+0.01	5.2%	A	
Standard Life US Multi-Asset	Standard Life	US Multi-Asset	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Multi-Asset	Standard Life	Japanese Multi-Asset	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Multi-Asset	Standard Life	Australian Multi-Asset	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Multi-Asset	Standard Life	Asian Multi-Asset	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Multi-Asset	Standard Life	African Multi-Asset	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Multi-Asset	Standard Life	Latin America Multi-Asset	100	10	0.10	+0.01	11.0%	A	
Standard Life Diversified	Standard Life	Diversified	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Diversified	Standard Life	European Diversified	800	80	0.80	+0.01	5.2%	A	
Standard Life US Diversified	Standard Life	US Diversified	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Diversified	Standard Life	Japanese Diversified	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Diversified	Standard Life	Australian Diversified	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Diversified	Standard Life	Asian Diversified	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Diversified	Standard Life	African Diversified	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Diversified	Standard Life	Latin America Diversified	100	10	0.10	+0.01	11.0%	A	
Standard Life Balanced	Standard Life	Balanced	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Balanced	Standard Life	European Balanced	800	80	0.80	+0.01	5.2%	A	
Standard Life US Balanced	Standard Life	US Balanced	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Balanced	Standard Life	Japanese Balanced	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Balanced	Standard Life	Australian Balanced	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Balanced	Standard Life	Asian Balanced	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Balanced	Standard Life	African Balanced	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Balanced	Standard Life	Latin America Balanced	100	10	0.10	+0.01	11.0%	A	
Standard Life Conservative	Standard Life	Conservative	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Conservative	Standard Life	European Conservative	800	80	0.80	+0.01	5.2%	A	
Standard Life US Conservative	Standard Life	US Conservative	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Conservative	Standard Life	Japanese Conservative	400	40	0.40	+0.01	7.0%	A	
Standard Life Australia Conservative	Standard Life	Australian Conservative	300	30	0.30	+0.01	8.0%	A	
Standard Life Asia Conservative	Standard Life	Asian Conservative	200	20	0.20	+0.01	9.0%	A	
Standard Life Africa Conservative	Standard Life	African Conservative	100	10	0.10	+0.01	10.0%	A	
Standard Life Latin America Conservative	Standard Life	Latin America Conservative	100	10	0.10	+0.01	11.0%	A	
Standard Life Income	Standard Life	Income	1,200	100	1.20	+0.01	4.5%	A	
Standard Life Europe Income	Standard Life	European Income	800	80	0.80	+0.01	5.2%	A	
Standard Life US Income	Standard Life	US Income	600	60	0.60	+0.01	6.0%	A	
Standard Life Japan Income	Standard Life	Japanese Income	400	40	0.40	+0.01	7.0%	A	

FT MANAGED FUNDS SERVICE

Current Unit Trust prices are available from FT Cyteline. For further details call 071 925 2128.

Prudential Life & Pension Ltd										Scottish Mutual Assurance plc										Sun Alliance Group - Canada										Albany International Assurance Ltd										Target International Group										Adams & Neville Fd Mgmt (Guernsey) Ltd										Lazard Fund Managers (CD) Ltd									
Unit Price	Offer Price	Yield %	Dividend	Dividend Date	Dividend Yield %	Dividend Frequency	Dividend Growth %	Dividend Payout Ratio	Dividend Coverage Ratio	Unit Price	Offer Price	Yield %	Dividend	Dividend Date	Dividend Yield %	Dividend Frequency	Dividend Growth %	Dividend Payout Ratio	Dividend Coverage Ratio	Unit Price	Offer Price	Yield %	Dividend	Dividend Date	Dividend Yield %	Dividend Frequency	Dividend Growth %	Dividend Payout Ratio	Dividend Coverage Ratio	Unit Price	Offer Price	Yield %	Dividend	Dividend Date	Dividend Yield %	Dividend Frequency	Dividend Growth %	Dividend Payout Ratio	Dividend Coverage Ratio	Unit Price	Offer Price	Yield %	Dividend	Dividend Date	Dividend Yield %	Dividend Frequency	Dividend Growth %	Dividend Payout Ratio	Dividend Coverage Ratio	Unit Price	Offer Price	Yield %	Dividend	Dividend Date	Dividend Yield %	Dividend Frequency	Dividend Growth %	Dividend Payout Ratio	Dividend Coverage Ratio										
100.00	100.00	4.50	4.50	10/10/92	4.50	10/10/92	4.50	10/10/92	4.50	100.00	100.00	4.50	4.50	10/10/92	4.50	10/10/92	4.50	10/10/92	4.50	100.00	100.00	4.50	4.50	10/10/92	4.50	10/10/92	4.50	10/10/92	4.50	100.00	100.00	4.50	4.50	10/10/92	4.50	10/10/92	4.50	10/10/92	4.50	100.00	100.00	4.50	4.50	10/10/92	4.50	10/10/92	4.50	10/10/92	4.50	100.00	100.00	4.50	4.50	10/10/92	4.50	10/10/92	4.50	10/10/92	4.50										

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Small rally for sterling

STERLING bounced back from the lows of the day after the government announced it was to postpone the closure of most of the 31 coal pits previously earmarked for shut down.

But the rally was short lived and the pound closed over 2½ pence lower on the day at DM2.4200, as investors remained nervous about the UK's political and economic outlook.

"I think the seriousness of the economic situation and the deteriorating political backdrop have undermined sentiment towards the pound," said Mr Neil MacKinnon, chief economist at Citibank.

The announcement by Mr Michael Heseltine, the trade and industry secretary, that only ten pits were to close was greeted scornfully by foreign exchange traders.

"The government can't even do a U-turn properly," said one. "I can see no reason for wanting to buy sterling."

The outlook for the currency looks bleak. Traders say they expect further rate cuts as the government reacts to pressure to boost economic activity, regardless of the implications for inflation.

The next big hurdle for the government will be tomorrow's

debate on the future of the coal industry. Traders will be watching closely, unconvinced that yesterday's climb down healed the rifts in the Conservative party.

The pound also drifted lower against the dollar. It closed in London at \$1.6320, 2½ cents down on the day.

Sentiment towards the dollar continued to improve cautiously in London yesterday although the currency struggled to build on Friday's gains against the D-Mark.

The dollar failed to break through the DM1.49 level, closing in London at DM1.4835, not quite a pence higher on the day. Dealers expect the currency to trade within the DM1.45 to DM1.50 range between now and the presidential election on November 3.

A victory by Bill Clinton appears to have been discounted by the markets and

most expect it to strengthen after the election when, if the economy starts to recover, the Federal Reserve will be less likely to cut its discount rate.

"The dollar's long term outlook is one of increasing strength," said Mr Eric Fishwick, analyst at IBJ International in London.

In New York the dollar opened firmer against most currencies, but had its biggest gains against the pound.

Rumours that currencies still in the European exchange rate mechanism would realign this weekend, when the European Community's monetary committee meets in Berlin, abated when the state secretary at the German finance ministry ruled one out. The speculation had centred on a devaluation of the Spanish peseta which closed in European trading at 70.45 per D-Mark compared with Friday's close of 71.35.

EMS EUROPEAN CURRENCY UNIT RATES

Currency	Oct 19	Oct 18	% Change	% Spread	Divergence
Belgium Franc	41.9547	40.3732	-3.77	4.59	48
Dutch Guilder	2.20199	2.20177	-0.001	4.51	46
French Franc	6.55957	6.55957	0.000	4.51	46
German Mark	1.00000	1.00000	0.000	4.51	46
Italian Lira	2.363.636	2.363.636	0.000	4.51	46
Portuguese Escudo	200.484	200.484	0.000	4.51	46
Spanish Peseta	166.637	166.637	0.000	4.51	46

Oct central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for a one percent change in the dollar rate. Divergence from the dollar rate is the ratio between the percentage change in the dollar rate and the percentage change in the currency rate. The dollar rate is 100.000000. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Oct 19	Day's spread	Close	One month	% p.a.	Time months	% p.a.
US average	1.6130	1.6266	1.6175	1.6238	0.75-0.77mm	1.64
Germany	1.6130	1.6266	1.6175	1.6238	0.75-0.77mm	1.64
France	2.7000	2.7275	2.7175	2.7275	0.60-0.62mm	0.60
Belgium	40.05	40.95	40.00	40.40	1.40mm	1.60
Italy	1.6130	1.6266	1.6175	1.6238	0.75-0.77mm	1.64
Japan	0.0000	0.0000	0.0000	0.0000	0.00-0.00mm	0.00
Portugal	212.70	213.40	213.50	213.50	270-740mm	261.10
Spain	212.70	213.40	213.50	213.50	270-740mm	261.10
Switzerland	212.70	213.40	213.50	213.50	270-740mm	261.10
UK	212.70	213.40	213.50	213.50	270-740mm	261.10
US	212.70	213.40	213.50	213.50	270-740mm	261.10
Germany	212.70	213.40	213.50	213.50	270-740mm	261.10
France	212.70	213.40	213.50	213.50	270-740mm	261.10
Belgium	212.70	213.40	213.50	213.50	270-740mm	261.10
Italy	212.70	213.40	213.50	213.50	270-740mm	261.10
Japan	212.70	213.40	213.50	213.50	270-740mm	261.10
Portugal	212.70	213.40	213.50	213.50	270-740mm	261.10
Spain	212.70	213.40	213.50	213.50	270-740mm	261.10
Switzerland	212.70	213.40	213.50	213.50	270-740mm	261.10
UK	212.70	213.40	213.50	213.50	270-740mm	261.10
US	212.70	213.40	213.50	213.50	270-740mm	261.10
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Belgium	212.70	213.40	213.50	213.50	270-740mm	261.10
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Japan	212.70	213.40	213.50	213.50	270-740mm	261.10
Portugal	212.70	213.40	213.50	213.50	270-740mm	261.10
Spain	212.70	213.40	213.50	213.50	270-740mm	261.10
Switzerland	212.70	213.40	213.50	213.50	270-740mm	261.10
UK	212.70	213.40	213.50	213.50	270-740mm	261.10
US	212.70	213.40	213.50	213.50	270-740mm	261.10
Germany	212.70	213.40	213.50	213.50	270-740mm	261.10
France	212.70	213.40	213.50	213.50	270-740mm	261.10
Belgium	212.70	213.40	213.50	213.50	270-740mm	261.10
Italy	212.70	213.40	213.50	213.50	270-740mm	261.10
Japan	212.70	213.40	213.50	213.50	270-740mm	261.10
Portugal	212.70	213.40	213.50	213.50	270-740mm	261.10
Spain	212.70	213.40	213.50	213.50	270-740mm	261.10
Switzerland	212.70	213.40	213.50	213.50	270-740mm	261.10
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Germany	212.70	213.40	213.50	213.50	270-740mm	261.10
France	212.70	213.40	213.50	213.50	270-740mm	261.10
Belgium	212.70	213.40	213.50	213.50	270-740mm	261.10
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Portugal	212.70	213.40	213.50	213.50	270-740mm	261.10
Spain	212.70	213.40	213.50	213.50	270-740mm	261.10
Switzerland	212.70	213.40	213.50	213.50	270-740mm	261.10
UK	212.70	213.40	213.50	213.50	270-740mm	261.10
US	212.70	213.40	213.50	213.50	270-740mm	261.10
Germany	212.70	213.40	213.50	213.50	270-740mm	261.10
France	212.70	213.40	213.50	213.50	270-740mm	261.10
Belgium	212.70	213.40	213.50	213.50	270-740mm	261.10
Italy	212.70	213.40	213.50	213.50	270-740mm	261.10
Japan	212.70	213.40	213.50	213.50	270-740mm	261.10
Portugal	212.70	213.40	213.50	213.50	270-740mm	261.10
Spain	212.70	213.40	213.50	213.50	270-740mm	261.10
Switzerland	212.70	213.40	213.50	213.50	270-740mm	261.10
UK	212.70	213.40	213.50	213.50	270-740mm	261.10
US	212.70	213.40	213.50	213.50	270-740mm	261.10
Germany	212.70	213.40	213.50	213.50	270-740mm	261.10
France	212.70	213.40	213.50	213.50	270-740mm	261.10
Belgium	212.70	213.40	213.50	213.50	270-740mm	261.10
Italy	212.70	213.40	213.50	213.50	270-740mm	261.10
Japan	212.70	213.40	213.50	213.50	270-740mm	261.10
Portugal	212.70	213.40	213.50	213.50	270-740mm	261.10
Spain	212.70	213.40	213.50			

4 pm close October 19

4 pm close October 19

NASDAQ NATIONAL MARKET

4 pm close October 11

Stock	Div.	P/E	100s	High	Low	Last	Chng	Stock	Div.	P/E	100s	High	Low	Last	Chng	Stock	Div.	P/E	100s	High	Low	Last	Chng
ABN/Deas	0.40	200	324	252	332	314	+	Adi	21	108	17	15	16	16	+	Amgen	1.20	33	10	29	29	29	+
ACI Day 1	0.16	44	107	174	153	171	+	Adi	21	108	17	15	16	16	+	Amgen	1.20	33	10	29	29	29	+
Adi	21	108	17	15	16	16	+	Adi	21	108	17	15	16	16	+	Amgen	1.20	33	10	29	29	29	+
Adi	21	108	17	15	16	16	+	Adi	21	108	17	15	16	16	+	Amgen	1.20	33	10	29	29	29	+
Adi	21	108	17	15	16	16	+	Adi	21	108	17	15	16	16	+	Amgen	1.20	33	10	29	29	29	+
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Adi	21	108	17	15	16	16	+	Adi	21	108	17	15	16	16	+	Amgen	1.20	33					


Hor inde	0.98	18	1318	21 $\frac{1}{2}$	20 $\frac{1}{2}$	21	+ $\frac{1}{2}$	Gas	0.51	45	284	14 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	+ $\frac{1}{2}$	Volvo
Horizon	0.08	23	852	14 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	+ $\frac{1}{2}$	Gregoriet	125	12	4	4 $\frac{1}{2}$	4 $\frac{1}{2}$	4 $\frac{1}{2}$	+ $\frac{1}{2}$	
Horbeck	200	1178	8	6 $\frac{1}{2}$	6	6	+ $\frac{1}{2}$	Oshap	603	23 $\frac{1}{2}$	21 $\frac{1}{2}$	22 $\frac{1}{2}$	22 $\frac{1}{2}$	22 $\frac{1}{2}$	+ $\frac{1}{2}$	
								Oshap B	0.41	17	503	23 $\frac{1}{2}$	21 $\frac{1}{2}$	22 $\frac{1}{2}$	+ $\frac{1}{2}$	

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FINANCIAL TIMES

Perrier battle ends with something for everyone

AMERICA

Dow firmer as investors show resilience again

Wall Street

Some good corporate earnings results helped US share prices to end firmer yesterday despite further declines in IBM and another rise in bond yields, writes Patrick Harverson in New York.

At the close the Dow Jones Industrial Average was up 14.04 at 3,188.45. The more broadly based Standard & Poor's 500 was also firmer at the finish, up 3.23 at 414.96, while the Amex composite edged 1.21 higher to 368.54 and the Nasdaq composite roared ahead 8.06 to 390.67. Turnover on the NYSE was heavy at 226m shares.

The fifth anniversary of the October 1987 stock market crash passed uneventfully. Market sentiment remained reasonably positive, buoyed by a third quarter reporting season that is proving to be more positive than envisaged.

The resilience of investors was displayed last week, when large declines in three of the market's biggest stocks, IBM, Philip Morris and Westinghouse, only slightly depressed the Dow and left the wider market indices, such as the S & P 500, unscathed. IBM remained weak, but again failed to disturb sentiment significantly.

Investors also shrugged off continued declines in bond prices, which sent short and long-term yields higher as fixed interest markets expressed concern about the implications of a Democratic victory in the presidential election next month.

Among individual stocks, Time Warner rose 3 1/4 to \$24 on the news that the entertainment group earned \$6m in the third quarter, an improvement on the \$38m loss reported at the same stage a year ago. The company, however, reported a loss after preferred dividend payments were included.

IBM continued to decline in

the wake of last week's dreadful earnings figures and the stock fell another 3 1/4 to \$68 1/2 in turnover of 2.7m shares.

Chase Manhattan Bank rose 3/4 to \$33 1/4 after reporting a big improvement in quarterly profits to \$176m, up from \$136m a year earlier. Other banks were firmer in anticipation of good quarterly earnings, including Chemical, up 3 1/4 to \$33 1/4, also aided by reports that the billionaire investor, Mr Warren Buffett, may have taken a stake in the bank. Blockbuster rose 3/4 to \$14 1/4 on news of a 37.5 per cent rise in third quarter earnings to \$41.3m, or 22 cents a share.

Hasbro climbed 5/8 to \$33 1/4 on the American Stock Exchange after reporting profits of 75 cents a share in the third quarter, up from 55 cents a share a year ago.

On the Nasdaq market, Microsoft led the way higher, rising 3 1/4 to \$87 1/4, in heavy trading after an analyst at the securities house, Goldman Sachs, made positive comments on the stock. Others to benefit from Goldman recommendations included BMC Software, up \$1 at \$61 1/4, Sybase, \$2 1/4 higher at \$40 1/4, and Oracle Systems, \$1 1/4 firmer at \$22 1/4.

Canada

TORONTO share prices ended higher, boosted by firmer bank and gold stocks. Toronto's 300 index added 17.75 points, or 0.55 per cent, to 3,225.48, with advancing issues ahead of declines 271 to 248. Volume was 35.7m shares worth C\$208m against 28.5m shares worth C\$259.2m on Friday.

SOUTH AFRICA

MINING issues featured strongly as prices recovered some ground lost last week. The gold index gained 15 to 799 while the overall index was 11 stronger at 2,942. Industrials gave up earlier gains to close down 3 at 3,936.

EUROPE

Strong bonds lend support to German equities

NEITHER Paris nor Frankfurt were particularly enthusiastic about the gains which took the Eurotrack up yesterday, writes Our Markets Staff.

FRANKFURT was supported by a strong bond market early in the day, to the discomfort of derivatives traders. The Bundesbank's average bond yield fell another 11 basis points, from 7.47 to 7.36 per cent.

The DTF traders, caught short ahead of the options and futures expiry last Friday, were confounded again yesterday by the continuation of an impressive bond rally which has run since late August, and left them no choice but to cover again.

Little investment buying was seen as the DAX index rose 17.46 to 1,479.07. International blue chips such as Allianz, Deutsche Bank, Daimler and Siemens were prominent among the winners, although Hoechst scored the biggest gain in this class with a rise of DM6 to DM27.

Fundamentals registered in

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES									
Hourly changes	Open	11.30	12.00	13.00	14.00	15.00	16.00	Close	
FT-SE Eurotrack 100	997.53	1001.17	1000.65	999.45	999.57	999.56	1001.97	1001.00	
FT-SE Eurotrack 200	1058.64	1062.69	1061.41	1059.28	1059.90	1060.76	1064.11	1063.18	
THE EUROPEAN SERIES									
Hourly changes	Open	11.30	12.00	13.00	14.00	15.00	16.00	Close	
FT-SE Eurotrack 100	996.54	996.39	992.08	999.62	999.62	999.62	999.62	994.55	
FT-SE Eurotrack 200	1066.23	1061.28	1074.77	1065.38	1065.38	1065.38	1065.38	1069.79	

Base value 1000 (20/10/82) Friday 100 - 1002.22, 200 - 1066.42, London 100 - 997.25, 200 - 1058.44

the DM7.50 rise to DM466 in BMW, placed on BZW's buy list last week. Thyssen fell DM7 to DM157.50, following its news of a 25 per cent cut in fourth quarter steel production.

PARIS had another lacklustre day in turnover of just FF1.54bn. The CAC-40 index ended 14.88 higher at 1,679.06, in the middle of its 28-point trading range for the day.

The market was played by the news from Générale des Baux that it expects net attributable profit to grow by 11 to 12 per cent in spite of trimming its 1992 turnover estimate. The stock rose FF50 to FF1,685. By contrast, Lyonnaise des

Eaux fell FF10.50 to FF145. CMB fell FF7.10 to FF168 after J.P. Morgan downgraded its 1992 and 1993 earnings estimates for the company.

MILAN showed signs of consolidation after its recent rally, the Comit index falling 6.59 to 411.11 in turnover estimated at less than Friday's L167.5bn. Fiat fell L107 to L42.25, Generali L750 to L27.70 and Mediobanca L450 to L10.950. But privatisation stocks bucked the trend, with Credito Italiano rising L80 to L2.90 and Nuovo Pignone up L170 to L5.350.

Stet lost L43 to L1,292 in a London reaction to the company's rushed presentations last Thursday, explaining its reasons for buying Finsiel.

Ras fell L210 or 1.3 per cent to L15,710 as the insurer's rights issue got under way, while its savings shares lost L177 or 2.2 per cent to L7,521.

Shares in the engineering group, Worthington, were suspended pending details of an alleged sale of a majority stake in the group by Dresser Industries of Dallas to Ingersoll Dresser Pump Company. Analysts said that Ingersoll would be obliged by the new "Opa" laws to buy out minority shareholders in Worthington.

AMSTERDAM saw pressure on cyclical intensity as the CBS tendency index retreated 1.5 to 104.0 in moderate volume. Retrenchment in world steel left Hoogovens at a four-year low as it shed F3.30, or 9 per cent to F131.00.

Océ van der Grinten plunged nearly 19 per cent after a bigger-than-forecast fall in third quarter earnings, partly because of the strength of the guildler. It closed F19.00 lower at F133.50.

Reports that sales at its stores had weakened drove Ahold down F12.90 to F173.30, although it repeated earlier forecasts of higher 1992 profits.

ZURICH was led higher by banks, encouraged by easing interest rates, as the SMI index rose 21.2 to 1,904.7.

Turnover was moderate. In banking, where German banks were said to have put their Swiss counterparts on the buy list, UBS was the most active stock as it rose SFr15 to SFr814. CS Holding gained SFr35 to SFr1,990 and SBC SFr5 to SFr286.

BRUSSELS saw further weakness in Petrofina which eased Bfr450 or 5.9 per cent to Bfr7,150 on continued concerns about the future of the Ekofisk oil field. The Bel-20 index fell 3.35 to 1,081.07.

results proved better than expectations.

COPENHAGEN's all share index was down by 1.02 to 354.20, a new low for this year, writes Hilary Barnes. Uldanmark fell Dkr3 to Dkr113 following the bank's announcement that it expects a Dkr1bn loss this year. The bank also announced that it is raising supplementary capital, laying off staff and concentrating on domestic business.

MADRID was supported in low turnover by a strong banking sector and a better performance from utilities as the general index rose 1.36 to 153.32.

VIENNA was dragged lower by the publication of a sell recommendation by Morgan Stanley on OMV, which fell Sch38 to Sch650. The ATX index fell 12.76 to 770.25.

ISTANBUL fell to a four-month low as Ergel, down TL250 to TL2,900, disappointed the market with third quarter results. The index lost 104.35 or 2.7 per cent to 3,790.28 in turnover of TL109.5bn.

ASIA PACIFIC

Nikkei falls below 17,000 on futures-related selling

Tokyo

THE Nikkei average lost 2.6 per cent yesterday, falling below the important level of 17,000 for the first time since August 26, as futures-related arbitrage unwinding depressed share prices, writes Emiko Terazono in Tokyo.

The 225-issue index fell 466.00 to 16,903.81. The index opened at the day's high of 17,331.59, then fluctuated in a narrow band for the rest of the morning. Later, arbitrage unwinding and index-linked selling pushed the index to the day's low of 16,833.70.

Volume fell to 180m shares from 212m. Buying by public funds was not seen and trading by arbitrageurs dominated activity. Losers led gains by 780 to 133, with 180 issues remaining unchanged. The Topix index of all first-section stocks lost 20.28 to 1,292.99 but in London, the ISE/Nikkei 50

index rose 1.95 to 1,039.94. Market participants said the government's "guidance" to financial institutions not to sell holdings was distorting the market.

Rumours that a leading Japanese broker had advised clients to liquidate holdings worried some investors, as did speculation that September money supply figures, to be announced today, would indicate negative growth.

However, some investors hope weak economic indicators may prompt the Bank of Japan to ease interest rates. One strategist noted that the Bank of Japan's branch managers' meeting at the end of October could provide indication of the timing of a critical stocks, which had previously gained on the Aids and Interferon themes, fell on profit-taking. Green Cross, the most active issue of the day, lost Y50 to Y1,480 and Meiji Milk Products

fell Y28 to Y942. Retailers fell on last week's weak interim earnings announcements. Isetan, a leading department store, lost Y130 to Y2,220 and Marui fell Y30 to Y1,030.

Export-oriented companies were lower as the yen regained its strength against the dollar. Hitachi lost Y22 to Y726 and NEC fell Y14 to Y692. Japan Radio, the wireless telecommunications equipment maker, tumbled Y200 to Y1,320 on fears of poor earnings.

In Osaka, the OSE average fell 361.86 to 13,709.87 in volume of 7.4m shares.

Roundup

The bullishness which sent Hong Kong higher yesterday was not apparent elsewhere in the region. Bombay was closed to enable brokers to complete settlement of deals but trading should resume today. HONG KONG shot up in late

trading on a wave of overseas buying which brokers attributed to renewed confidence in the long-term economic prospects for China and Hong Kong. The Hang Seng index ended up 104.58 or 1.75 per cent at 6,089.91. Turnover fell to HK\$3.42bn from Friday's HK\$3.59bn.

Among the most active stocks were HSBC Holdings, up HK\$1 at HK\$39, Cheung Kong, up 80 cents at HK\$22.60 and Sun Hung Kai Properties, up 50 cents at HK\$34.25.

SEOUL saw renewed optimism on hopes of an end to the recent political instability. Reports that the former co-chairman of the ruling Democratic Liberal Party was not to join a new political party boosted sentiment, analysts said. The composite index climbed 13.25 to 539.70 in turnover of Won315bn.

AUSTRALIA closed just off its opening level, after dipping below a key support level earlier in the day. The All Ordinaries index dropped below 1,410 to 1,408.8 before recovering to close at 1,417.6, down 2.3. Turnover was moderate at A\$169.5m.

The biggest volume in the mining sector was Forsyth, which traded 44m shares overnight at 34 cents. Brokers said the deal was crossed by the Perth stockbroker Hartley Poynton, which sold a further 11m to the London-based brokers County NatWest in an overseas deal. The chairman Mr Andrew Kroger was believed to be the seller and the shares finished unchanged at 26 cents.

NEW ZEALAND closed at a 13-month low, as the NZSE-40 capital index fell as low as 1,357.71 before recovering to a 1,358.26 finish, down 8.59. Fletcher Challenge was the focus of the market, as it went ex-dividend of 7 cents. The stock ended unchanged at NZ\$1.85.

The other stock to feature was Lion Nathan, which lost a further 10 cents to NZ\$4.10. It lost 11 cents on Friday on a report that a broker had downgraded Lion's profit forecast.

TAIWAN reversed early gains to finish slightly lower. The weighted index, which opened up more than 20 points, closed 14.81 lower at 3,734.51. Turnover was T\$13.7bn.

MANILA's power cuts continued to interrupt trading and the composite index closed 13.50 lower at 1,357.61 as combined turnover eased to 211m pesos from 234m. PLDT fell 10 pesos to 940 pesos in spite of a strong rise in US trading on Friday.

KUALA LUMPUR concentrated on domestic issues as the composite index gained 4.28 to 612.33. SINGAPORE's investors remained buyers of Malaysian issues and the Straits Times Industrial index fell 5.71 to 1,328.41.

Hong Kong illuminates darkening week

MARKETS IN PERSPECTIVE

	% Change in local currency			% change sterling			% change in US \$		
	1 Week	4 Weeks	1 Year	Start of 1992	Start of 1992	Start of 1992	Start of 1992	Start of 1992	Start of 1992
Austria	+0.47	-5.79	-18.20	-10.65	+4.68	-7.30			
Belgium	-0.89	-3.47	-6.19	-6.14	+0.94	-3.51			
Denmark	+0.80	-5.98	-51.24	-29.28	-17.36	-26.81			
Finland	+3.42	+5.98	-10.10	-14.72	-14.54	-24.33			
France	+0.10	-10.53	-8.97	-5.27	+10.53	-2.11			
Germany	+1.42	-7.38	-10.56	-9.75	+4.70	-7.28			
Ireland	-2.27	-11.66	-26.15	-22.32	-10.05	-20.34			
Italy	+4.84	+12.10	-15.42	-14.94	-14.55	-24.33			
Netherlands	-0.20	-2.97	-1.25	+1.81	+18.07	+4.57			
Norway	-0.85	-7.37	-32.18	-22.67	-15.67	-22.55			
Spain	-0.31	-10.64	-26.58	-21.60	-19.15	-26.39			
Sweden	-0.88	-12.03	-23.80	-15.85	-5.41	-16.23			
Switzerland	-0.02	-1.71	+8.12	+10.57	+28.30	+13.62			
UK	+0.71	-0.01	-1.93	+2.25	+2.25	-9.44			
EUROPE	+0.84	-3.42	-7.01	-3.72	+3.91	-7.97			
Australia	-3.26	-7.37	-14.16	-16.45	-10.52	-20.58			
Hong Kong	+6.49	+5.22	+47.94	+39.46	+58.48	+40.35			
Japan	+1.17	-3.22	-28.40	-22.77	-9.05	-19.44			
Malaysia	+1.82	+4.15	+17.07	+8.16	+32.82	+17.83			
New Zealand	-0.44	-7.64	-10.15	-16.44	-5.32	-16.13			
Singapore	-0.85	-1.07	-6.74	-17.29	-5.65	-16.44			
Canada	-0.52	-7.43	-10.28	-10.27	-5.99	-16.74			
USA	+2.11	-2.44	+5.28	-1.05	+11.72	-1.05			
Mexico	+1.80	+9.12	+4.11	-1.37	+6.06	-4.28			
South Africa	-5.84	-8.97	-16.00	-18.42	-30.50	-38.45			
WORLD INDEX	+1.34	-2.93	-9.21	-5.60	+2.69	+2.70			

Based on October 19th 1992. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and County NatWest Securities Limited.

By William Cochrane

US EQUITIES turned in midweek last week, but after a recovery on Monday and a good start to the quarterly reporting season on Tuesday - subsequently marred by disappointing progress reports from IBM and Philip Morris - New York still had enough left to lead the FT-Actuaries World Index into a 1.3 per cent gain in local currency terms.

In most of the major investment blocs, the week ended less happily than it began. Europe was subdued as downgrades moved from corporate earnings to national economic prospects in Germany, France and the UK in particular; for Japan, even the bulls were saying that hopes of a further cut in interest rates, and recovery, were counterbalanced by short-term fears for the economy and corporate profits.

Hong Kong, however, was more interested in a massive underdeveloped economy: China. The successful resolution of Sino-US trade negotiations pushed up the market early in the week and unsupported rumours of an early resolution to the airport financing argument kept it going to achieve the best gain of the week.

Hoare Govett Asia says on Hong Kong that the pro-reform flavour of the 14th party congress in Beijing has been appreciated, and that this week the impending visit to Beijing by Mr Chris Patten, governor of Hong Kong, will dictate market movements.

The week's most serious underperformer was South Africa, where local institutions are not buying shares and where, further, there is evidence that they are switching out of equities and into bonds and cash.

Political strife between the government and the ANC has combined with hints about higher taxes and a rise in the financial rand, which tends to depress shares in local currency terms; and it is known that some R4bn of rights issues are in the immediate supply pipeline.

On October 9, 1992, Industrivärden's listed stock portfolio had a value of SEK 4,700M. Adjusted for acquisitions and sales, the portfolio value fell by 30 percent from the beginning of the year. In the same period, the General Index fell by 27 percent.

On October 9, the Group's calculated net equity value was SEK 7,600M or SEK 159 per stock unit and CPN.

INDUSTRIVÄRDEN

EIGHT MONTH REPORT JANUARY 1 - AUGUST 31, 1992

- Group earnings after financial items and minority interest but before sales of stocks were SEK 280M (390) for the first eight months of the year.
- 1992 full-year earnings, calculated after financial items and minority interest but before sales of stocks, are expected to be approximately SEK 325M.
- On October 9, 1992, Industrivärden's listed stock portfolio had a value of SEK 4,700M. Adjusted for acquisitions and sales, the portfolio value fell by 30 percent from the beginning of the year. In the same period, the General Index fell by 27 percent.
- On October 9, the Group's calculated net equity value was SEK 7,600M or SEK 159 per stock unit and CPN.

INCOME STATEMENT - INDUSTRIVÄRDEN GROUP

January 1 - August 31, 1992

SEK M	1992			1991		
	Jan-Aug	Jan-Aug	Jan-Dec	Jan-Aug	Jan-Aug	Jan-Dec
Invoiced sales	7,325	5,681	7,820			
Manufacturing, selling and administration expenses	-6,434	-4,869	-6,637			
OPERATING EARNINGS BEFORE DEPRECIATION	891	792	1,183			
Scheduled depreciation	-393	-308	-443			
OPERATING EARNINGS AFTER DEPRECIATION	498	484	740			
Financial income and expenses						
Dividend income	213	208	209			
Interest income	71	60	105			
Interest expenses (excluding CPN interest)	-492	-376	-528			
Other financial items	-4	17	23			
EARNINGS AFTER FINANCIAL ITEMS	286	393	549			
Minority interest	-6	-3	-4			
EARNINGS AFTER FINANCIAL ITEMS AND MINORITY INTEREST	280	390	545			
Earnings from sales of listed stocks	-52	273	277			
CPN interest	-67	-58	-89			
EARNINGS BEFORE EXTRAORDINARY ITEMS	161	605	733			
Extraordinary income and expenses	8	10	-71			
EARNINGS BEFORE APPROPRIATIONS AND TAXES	169	615	662			

Box 5403, S-114 84 Stockholm, Sweden, Phone +46 8 666 64 00, Telefax +46 8 661 46 28

WORLD CAR INDUSTRY 2

LEADING western car makers have intensified warnings in recent weeks that west European new car sales would fall in 1993 for the second successive year.

According to Mr Louis Hughes, president of General Motors Europe, west European new car sales will drop to 13.3m this year from 13.43m in 1991 and will be "clearly under 13m" in 1993 "if present consumer uncertainty in some markets continues".

Only the inclusion of eastern Germany has masked the fact that new car sales elsewhere in west Europe have been in decline since the record year of 1989.

According to Automotive Industry Data, the UK-based automotive analysts, new car sales in west Europe (excluding east Germany) peaked in 1989 at 13,467,000 and then fell to 13,259,000 in 1990 and 12,763,000 last year.

German reunification added a new market, eastern Germany, which last year at 730,000 was the sixth largest in Europe. This allowed the total west European market to remain at a record level with sales in 1990 of 13,489,000 and 13,493,000 in 1991.

Even the enlargement of the market can no longer disguise the weakening trend of demand for new cars, however.

Kevin Done reviews the outlook in the world's main car markets

A chequered pattern

Mr Allan Gilmour, president of Ford's worldwide automotive operations, maintains that in addition to the severe recession in the UK "recent currency and interest rate fluctuations throughout Europe have created uncertainty and reduced consumer confidence."

"Now we are seeing slow-downs in Spain, France and Italy and, to some extent, in Germany. Near-term prospects for the auto industry in Europe are not very good."

According to Mr Jacques Calvet, chairman of PSA Peugeot Citroën, west European new car sales will fall by 1.5 per cent this year with a further 1.3 per cent fall in 1993 as political and economic factors generate greater gloom in Europe. "Looming elections, triumphant monetarism - as the

Bundesbank leads and France merely follows - structural problems in the UK and the determination to correct certain economic and financial imbalances in Spain and Italy are causing consumer spending and investment either to stagnate or decline."

He expects European exports to be complicated by the "combination of unstable EC exchange rates, a weak dollar and the deliberately underval-

ent of Nissan Motor, Japan's second largest vehicle maker, said this month that "the global motor industry today is facing a business climate of unprecedented severity".

Vehicle demand had dropped in all three of the world's major motor markets, Europe, the US and Japan, and he warned that "there is little expectation that the market will recover quickly in the immediate future."

DRI, the UK-based automotive analysts, forecast that worldwide new car sales this year will be virtually unchanged at 34.05m compared with 34.04m last year. The drop of 2.7 per cent in 1991 from 34.97m in 1990 was the largest sales reduction since the 1980/81 recession.

reach 40.7m.

The forecast growth in demand next year is expected to be supported by a marked strengthening of new car sales in the US coupled with a return to growth in Japan after two years of falling new car registrations.

While sales in west Europe are forecast to fall further by 1.8 per cent to 13.15m next year, the latest DRI study suggests that sales in North America will jump by 11.0 per cent to 10.26m in 1993 with demand in Japan rising by 3.0 per cent to 4.71m.

Car sales in the Asia Pacific region (excluding Japan) are expected to remain on a fast track with demand rising by 8.4 per cent next year to 2.45m following a jump of 7.6 per cent in 1992. New car demand in South Korea is forecast to exceed 1m for the first time in 1994 with the market having doubled since 1989.

Sales are also expected to expand next year in Latin America - led most importantly by Brazil - and in east Europe.

WORLD CAR SALES FORECAST (000's)					
	1992	1993	1994	1995	1996
WORLD TOTAL	34,047	35,587	37,156	38,943	39,967
Germany	3,207	3,453	3,494	3,650	3,751
Italy	2,417	2,371	2,221	2,199	2,275
France	2,095	2,201	2,309	2,445	2,456
UK	1,589	1,716	1,912	2,145	2,270
Spain	1,022	992	1,102	1,289	1,299
EC total	12,478	12,213	12,668	13,359	13,789
West Europe total	13,583	13,182	13,661	14,428	14,906
US	8,444	9,422	9,731	9,852	9,826
Japan	4,578	4,712	4,864	5,000	5,104
South Korea	846	925	1,006	1,060	1,123

WORLD CAR OUTPUT FORECAST (000's)					
	1992	1993	1994	1995	1996
WORLD TOTAL (net)	35,151	37,029	38,033	39,133	40,179
Germany	4,848	4,606	4,582	4,837	4,796
France	3,318	3,508	3,543	3,645	3,761
Spain	1,827	1,876	1,931	2,140	2,179
Italy	1,579	1,481	1,630	1,856	1,887
UK	1,263	1,590	1,698	1,838	2,006
EC total	13,162	13,478	13,856	14,509	15,063
West Europe total	13,454	13,828	14,248	14,923	15,487
US	6,215	6,581	6,773	6,862	6,852
Japan	9,819	9,776	9,980	10,217	10,280
South Korea	1,243	1,394	1,555	1,661	1,711

Excluding traceable double counting. Source: DRI World Automotive Forecast Update - Autumn 1992.

New car demand in Japan in 1992 is falling for a second year in succession, the first time for many years that there has been such a prolonged period of decline. The fall of 4.6 per cent in 1991 and a forecast decline of 6 per cent this year follow a period of extraordinary growth in the late 1980s, when the Japanese new car

market climbed from 3.28m in 1987 to 5.1m in 1990.

According to the DRI forecast Japanese new car sales are not expected to break through the 5m barrier again before 1995/96.

In west Europe the DRI study says that new car sales will begin to recover in 1994 helped by the climb out of pro-

longed recession by the UK. New car sales in the UK are not forecast to match the 1989 peak of 2.3m, however, until 1997 at the earliest. Steady growth in west Europe in the three years from 1991 to 1995 is forecast to take sales above 14m for the first time in 1995 and above 15m in 1997.

The pattern of west European new car sales in the last two years has been substantially influenced by developments in Germany, which alone now accounts for close to 30 per cent of total west European new car registrations.

The boom which followed reunification is now over and sales are falling. "Germany was instrumental in supporting west European car sales and production last year and this pivotal support has now been removed at a time when key markets like the UK and France have still to show real signs of recovery," says the DRI study.

DRI forecasts that the German market will fall by 3 per cent this year to 3.6m - with some bringing forward of sales into 1992 to avoid next year's VAT rise. It suggests the German market will bottom out at 3.5m in 1994 but warns that "it is not inconceivable that the projected downturn for the German market could continue into 1994".

WEST EUROPE'S big six volume car makers are facing a rough ride as competition intensifies and new car sales weaken. A wave of additional capacity is being built across Europe in an industry that is already suffering from shrinking margins.

The new plants from Portugal to east Germany and from the UK to Italy were planned as west European car producers were still basking in an unprecedented succession of annual sales records.

They are about to hit the market, however, as the European appetite for buying new cars is succumbing to retrenchment.

The leading volume car producers in Europe are enjoying widely differing fortunes, while the specialist car makers have been hit hard in their main markets on both sides of the Atlantic.

A new group of executives must lead the European motor industry through the 1990s with changes announced at the top of four leading producers - Volkswagen, Ford of Europe, GM Europe and Renault.

In the last two years the Volkswagen group of Germany has established a clear lead ahead the west European new car market, but its profitability is under heavy pressure both from the dash for growth and from its failure to get to grips with its expensive German cost base. VW's domestic cost problems have been exacerbated by the recent currency turmoil and the big devaluations of the lira and the pound.

Europe expands at the worst possible time, says Kevin Done

Speeding into a pile-up

While its profits sag the group, which includes Audi, SEAT and Skoda, has boosted its share of west European new car sales to a record 17.3 per cent in the first eight months of the year from 16.5 per cent in the same period a year ago.

In a market which has declined by an estimated 2.2 per cent the VW group has increased its sales by 2.8 per cent in the first eight months to around 1.66m.

To confront the serious cost-cutting challenge in Germany the top management of VW is being overhauled with the retirement of Mr Carl Hahn, who has led the group's increasingly hectic expansion since 1982. He will be succeeded as group chairman by Mr Ferdinand Piech, the tough Austrian-born chief executive of Audi, VW's executive and luxury car subsidiary. Mr Piech's closest rival for the top job, the Frenchman Mr Daniel Goeudevert, a former manager with Citroën, Renault and Ford, will become group deputy chairman in addition to remaining chairman of the Volkswagen brand organisation.

Ford is shaking up the management of its loss-making European operations with the appointment of Mr Jacques Nasser, the 44-year-old Lebanese Australian, as chairman of Ford of Europe from the end of December, when Mr Lindsey Halstead retires. At Renault Mr Louis Schweitzer, a former top French civil servant, has succeeded Mr Raymond Lévy as chairman, while Mr Louis Hughes, 43, moved from Opel to become president of GM Europe, following the surprise departure of Mr Robert Eaton to Chrysler in the US.

Mr Nasser faces a formidable challenge at Ford of Europe, which suffered record losses last year and which is forecast to make another loss in 1992. He inherits a daunting agenda for restructuring what was earlier regarded as a model of efficiency in the European auto industry and a vital contributor to Ford group profits.

Ford, which was narrowly the leader of the west European new car market in 1984, has now slipped to fifth place among the big six volume car makers in Europe, where its financial woes in the last two

years have been in stark contrast to the record profits achieved by General Motors Europe.

GM was the most profitable of the big six volume car makers in Europe last year with a 7 per cent net profit margin. The net profits of its core Opel/Vauxhall car and light commercial vehicles rose to a record \$1.96bn in 1991 compared with the net loss of \$961m suffered by Ford of Europe.

While GM's European profits have totalled more than \$1.75bn in each of the last four years, Ford has suffered a steep decline from a net profit of \$1.56bn in 1988 to a net loss of \$961m last year.

Ford's European automotive operations accumulated a net loss of \$1.079bn in 1991, but this was partially offset by the net profit of \$118m at its financial services in Europe.

The profits of GM's European operations provided at least a partial cushion against the record losses suffered by the group in the US last year which totalled \$7.087bn including a \$1.8bn special restructuring



Renault chairman Louis Schweitzer: new leadership for the nasty Nineties

provision. The European profits could not prevent the world's biggest vehicle maker suffering an overall loss of \$4.5bn, however, the largest annual loss recorded by a US company.

In spite of lower sales this year GM Europe, which includes Saab Automobile, moved into second place in the west European new car market after the first eight months of this year, helped by the waning fortunes of the Fiat group.

Fiat, which only three years ago was still challenging the Volkswagen group for market leadership, has suffered the sharp-

est slide by a leading European producer. By sharp contrast Renault, the French state-owned car maker which is developing a far-reaching alliance with Volvo of Sweden, has staged a dramatic recovery in the last two years. Long regarded as one of the weakest of the European producers, Renault has emerged this year as the fastest-growing volume car maker in Europe. It increased its sales volume by around 5 per cent in the first 8 months to boost its market share to 10.5 per cent from 9.8 per cent a year earlier.

Its pre-tax profits jumped fivefold in the first half of the year to FF5.44bn from FF1.962bn in the same period a year ago. It has drastically cut its debt burden and Mr Schweitzer, the new Renault chairman, has forecast this month "satisfactory profits for the full year" even taking into consideration a "considerably more difficult second half".

Among Europe's specialist car makers Jaguar and Rolls-Royce Motor Cars of the UK are mired in deep and continuing losses as are Saab and Volvo of Sweden. Porsche of Germany is cutting its workforce by a third over three years. Rover, a subsidiary of British Aerospace, also remains in loss in the face of the steepest slide into recession suffered by the motor industry in Britain in the post-war period. UK new car sales have dropped by a third in the last three years.

THE BEST THING ABOUT DRIVING TO THE HORIZON IS IT TAKES FOREVER.

PIRELLI IF YOU'RE GOING TO DRIVE, DRIVE.

WORLD CAR INDUSTRY 3

Europe gets to grip with price variations, writes Kevin Done

Too much of a good thing

THE investigation of car makers' pricing policies across Europe is set to intensify over the next two years.

In mid-1993 the present 10-year "block exemption", which controversially allows car makers to use a selective dealer distribution system in contravention of European Community competition rules, is due to expire.

The motor industry has been given due warning by the EC competition directorate that a renewal of the block exemption will depend heavily on car manufacturers' performance in conforming with EC limits on car price differentials across Europe.

The block exemption granted in 1985 was conditional in part on car prices between member states not differing by more than 12 per cent in the long-term or by more than 16 per cent for periods of less than a year.

During 1992 both the UK Monopolies and Mergers Commission and the European Commission have published reports on car prices in Europe. Neither report has succeeded in removing the widespread confusion over price differences, but the EC report in particular has drawn attention to many specific cases where price differentials have exceeded the block exemption guidelines.

This month a new report is being published by Ludvigsen Associates, the UK-based automotive analysts, which widens

the pricing debate beyond Europe and claims that, whatever the price differences within Europe, European car buyers are paying as much as 30 per cent more for new cars than consumers in the US and in Japan.

Ludvigsen Associates, which carried out the basic research for the MMC inquiry in the UK, claims that "the European car buyer is spending more than he should for personal transportation" both in absolute terms and in relation to household income.

The report is the first co-ordinated attempt to compare car prices between Europe and the other major world markets, the US and Japan.

According to the study the largest differences are with car prices in Japan. It claims that European car prices (net of tax) are 33 to 43 per cent higher than equivalent prices in Japan, while European prices are 15 to 45 per cent higher than in the US.

On average it takes 27 weeks of gross family income for a European to buy a car compared with 21 weeks in America and 15 weeks in Japan.

The UK is at the European average, while the Germans, French and Belgians need four weeks less.

Sir Leon Brittan, the EC competition commissioner, warned car makers during the summer that "action is needed at once" both to monitor car prices more

closely and to reduce differentials.

The study prepared for the European Commission and published earlier this year showed that there have been substantial price differences for some car models across the Community of more than 40 per cent in the most extreme cases.

According to the EC report five car makers, Ford, Honda, Citroën, Mazda and Audi, had at least one model with price differences greater than 40 per cent in one of the five time periods selected for study, between January 1988 and January 1991.

The study's findings have come under heavy attack from the motor industry, but in a letter to car makers Sir Leon has made clear that the industry must take steps to make their European pricing policies more transparent if they wish to retain the selective distribution system, which in effect restricts sales of new cars exclusively to dealers chosen by the manufacturers.

Consumer groups, already critical of dealers and their service and repair performance, have called for the system to be replaced by a market free-for-all, with manufacturers being obliged to supply cars to virtually any outlet which wishes to sell them.

At issue is the question of power and control within the motor industry, and whether some of that power should be allowed to slip from the manufacturers to



A Peugeot 405: price policies are to face two years of growing scrutiny

the retailers. Is selective distribution in fact a significant factor behind the substantial price differentials the EC claims to have found?

Sir Leon is presently on delicate legal ground with the motor industry. In his letter to car makers last month he accepts that the EC car price study has not established "beyond doubt" the linkage between large car price differences across the Community and the selective distribution system.

Obviously for the car makers he pointed out, however, that the study had made adjustments for the other most significant potential causes of the price differentials perceived by consumers, such as varying equipment specification levels, currency fluctuations, tax rates and discounting.

The decision about what to do when the block exemption expires in mid-1993 would be based "on a full evaluation of the strengths and weaknesses of the selective distribution system as it currently operates, and not just the price issue," admitted Sir Leon.

He left little doubt in his letter, however, that the pricing issue will play a vital role in the decision-making process, at least for the competition officials.

According to Sir Leon "the current pricing situation is a cause for concern," and the evolution of prices over the next three years would be "an important factor" in the decision on whether or not the block exemption should survive. Action was needed "at once".

Given the confusion that still reigns over the results of the car makers' pan-Eu-

ropean pricing policies, Sir Leon is seeking three far-reaching steps by the industry to increase price transparency. He is calling on car makers:

- to publish every three months one price list on an EC-wide basis for their entire product range. Prices should be quoted in Ecus and in local currency, and should be set out in a way that "will enable consumers to make clear comparisons."

- to make freely available every three months the prices recommended to authorised dealers for the manufacturer's five top-selling models in each market along with comparable prices for every other EC market, (again in Ecus and local currency).

- to complete every six months an analysis of the prices recommended to dealers in each EC member state of "one standard, low equipment model" in each market segment. The manufacturers are to ensure in this way that they are operating within the price bands allowed by the block exemption regulation.

In addition Sir Leon has asked the car makers to write to their dealers in each market to assure them that they will supply cars ordered with specifications for another market (for example a right-hand drive car with UK specifications ordered in Belgium) "within a reasonable time period" and "at the same basic price" as for normal supplies of the comparable local model.

The industry is still to respond to these requests, but it has some way to go if it is to repair the credibility gap with Sir Leon and ensure the survival beyond 1993 of selective distribution, which car makers insist is essential to provide adequate levels of service and safety to car owners.

Japanese plants are opening far and wide, says Kevin Done

Trickle becomes a flood

IN DECEMBER, the first car will roll off the assembly line at Toyota's £700m car plant in the UK, as Japan's leading vehicle maker commissions its first car production operation in Europe.

Toyota began output of engines in Europe at its £140m plant in north Wales in September. Earlier this month Honda began volume production at its £300m car plant in southern England.

The start-up of a wave of new plants by the Japanese auto industry heralds the start of a new phase in the formidable assault by Japanese car makers on the European car industry. An array of plants and new models are entering production in the UK, Hungary, Italy and Spain.

Japanese vehicle production capacity in Europe is expected to exceed 1.2m a year by the end of the 1990s. European car production totalled 12.7m last year with the Volkswagen group accounting for 2.44m and Renault, the smallest of the big six volume carmakers, for 1.55m. Japanese carmakers

captured 12.3 per cent of west European new car sales of 13.49m last year and this is forecast to rise to between 16 and 20 per cent by 1999.

Toyota and Honda are developing a total capacity to produce 800,000 cars a year by the mid-1990s at their UK plants, and the figure could easily double by the end of the decade.

The UK is not the only Japanese springboard into Europe. At Esztergom, 40 kms north of Budapest, the first Suzuki Swifts are also set to leave the line of Magyar Suzuki's more modest assembly plant during the autumn, while in northern Italy Daihatsu is preparing to begin production by the end of the year of micro vans at its joint venture with Piaggio.

Back in Britain Nissan, which pioneered the route for the Japanese motor industry

into local car production in Europe during the mid-1980s, is already launching its second UK-built car range.

A new generation Micra - Nissan's small car that competes with the Ford Fiesta, the Peugeot 205 and the Renault Clio - will be supplied to Europe from its £900m Sunderland car plant in England.

The Toyota, Honda and Suzuki plants may start slowly, but the Nissan example shows how fast the trickle will become a flood.

Japan's second largest auto maker began car production modestly enough in Europe in 1986, but it is now pulling out all the stops to stay a jump ahead of its Japanese rivals.

While it is Nissan's burgeoning UK operations that claim much of the limelight, the company is also investing heavily

in Nissan Motor Iberica, the Spanish commercial vehicle maker, where it acquired majority control a decade ago.

From 1990 to 1995 Nissan is investing £600m in Spain. Last month it started European production in Barcelona of its new Serena multi-purpose vehicle while in the spring the company will roll out a new generation four-wheel drive vehicle.

As a sign of the changing order Nissan will supply part of its Spanish output of the four-wheel drive vehicle to Ford for sale in Europe under the Ford badge.

The link between Ford and Nissan in Spain shows how quickly the arrival of the Japanese vehicle makers in Europe is set to move on to a more sophisticated plane.

General Motors of the US (which sells under the Opel/

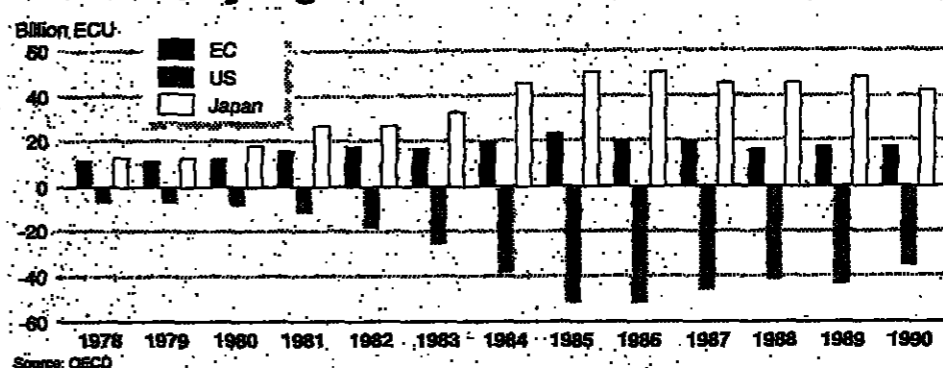
Vauxhall badges in Europe) is already using the technology of Isuzu, its minority-owned Japanese affiliate, to produce four-wheel drive leisure vehicles - the Opel/Vauxhall Frontera - at a joint venture, IBC Vehicles, in the UK.

Rapidly mounting research and development costs are the driving force behind the new alliances. Volkswagen of Germany, the biggest European car maker, has recently finalised a deal with Suzuki for the production of a range of small cars in Spain.

Suzuki, already producing compact four-wheel drive vehicles in Spain and now starting car production in Hungary, will develop the new range of minicars with Seat, VW's Spanish subsidiary.

While VW develops its link with Suzuki, Rover, formerly

Car industry regional trade balances



British Leyland, has become closely allied to Honda, while Volvo, the ailing Swedish car maker, has sought refuge with Mitsubishi Motors in a joint venture in the Netherlands to develop the next generation medium-sized car to replace the present Volvo 440 series.

Honda, in addition to its own UK car and engine plant, holds a 30 per cent equity stake in Rover's vehicle operations, and Honda technology has essentially underpinned all Rover's

mainstream new cars launched since the mid-1980s.

Volvo has brought Mitsubishi in as a joint venture partner at its Dutch plant, where a new range of cars - badged both Volvo and Mitsubishi, but mainly engineered by the Japanese car maker - will emerge in the mid-1990s.

To date only Mazda among the leading Japanese car makers is still to determine a strategy for starting local car production in Europe.

Even as the concrete is drying at the assembly plants, the leading Japanese producers are also pressing ahead with the establishment of R&D facilities in Europe.

Honda is building up a technical centre near Frankfurt. Toyota's development resources are being concentrated in Belgium. Nissan has invested £64m to date in design and development operations in Europe including a technical centre in the UK.

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WORLD CAR INDUSTRY 4

Germans steer nervously through the currency chaos, writes Andrew Fisher

Skidmarks and D-Marks

AT A TIME when German car companies are battling to bring down costs to the levels enjoyed by their foreign competitors, export markets have suddenly been thrown into disarray by turbulence in the currency markets.

After more than five years of peace on the European exchange rate scene, German manufacturers now survey a landscape in which the UK, Italian, and Spanish currencies have all fallen sharply in value against the D-Mark. With economic growth weak across Europe, or non-existent in some countries, price rises to compensate for the full extent of the devaluations are out of the question.

Non is the picture much brighter elsewhere. In the US, which has become an increasingly rough market in the past few years, the low valuation of the dollar against the powerful D-Mark has increased the difficulties of selling German cars. Competition from Japanese models, whether made in Japan or in "transplant" facilities, has changed the US market dramatically, while the tax

on luxury goods - against which German carmakers fume - has also eroded sales.

But while the background may be gloomy, the German industry has performed surprisingly well so far this year. In the first half, production was 2 per cent above the level of the same period in 1991, a year which saw west German production exceed 5m cars for the first time. Exports, which slid last year by 16 per cent to 2.2m units, were 21 per cent higher in the first half of 1992.

The unification boom has tailed off and carmakers are now focusing on exports

at 1.3m. This jump in exports is partly due to the introduction of new models, says the German motor industry association (VDA).

In the volume range, Volkswagen has its third generation Golf, and Opel (part of General Motors) its new Astra, both competing strongly with each other. But a more important

reason for the higher level of foreign deliveries is the decision of car companies to rebuild their stocks at foreign dealers.

When unification enabled east Germans to replace their dated Trabant and Wartburgs with western models, domestic car producers did their utmost to meet the huge jump in demand.

This was partly at the expense of foreign markets. In 1991, new car registrations in united Germany soared to 4.2m units; in the previous year, with the country unified for only three months, the figure was 3m. Of last year's total, 730,000 were in east Germany and 3.4m in west Germany, which experienced a 13 per cent rise.

Foreign imports did exceed last year, showing just how stretched the German industry was to meet demand. In east Germany, imports took 52 per cent of the market, led by the French and Japanese. In west Germany, the import share was 32 per cent, though this was 38 per cent including cars made by German produc-

ers in plants abroad. This year, the post-unification boom has tailed off. New registrations in the first half of 1992 were down by 9 per cent, though sales in east Germany showed a marginal rise. For the full year, the VDA reckons with "a markedly lower" new registration total for the whole country. As well as the fading of the east German impulse, the domestic market has also been affected by higher taxes, high interest rates, and the dampening influence of the constant discussion in Bonn over new ways of financing the budget deficit.

With the domestic market having peaked, the German motor industry has stepped up its efforts abroad. Hence its collective chagrin at the latest currency upsets. VW, for example, sells more cars to Italy than to any other export market. Almost as many VWs are sold in the UK and France combined. Since the end of last year, the D-Mark has appreciated by more than 4 per cent against EC currencies, by at least 10 per cent against sterling and the lira, and by nearly 10 per cent against the peseta.

VW says it is not changing prices in markets where currencies have devalued until the situation is clearer. Mr Tom Purves, managing director of BMW (GB), said just after the turmoil in the European Monetary System that the company's UK prices would have to rise at the turn of the year to compensate for sterling's sharp fall.

But the recession-hit state of the market would mean that BMW could by no means lift prices by enough to make up for all of this.

So German companies' margins are being squeezed further. The industry has long been aware that its costs are out of line with those of its competitors. While the rest of Europe has reduced labour over the past decade, German companies have added jobs. Now, the Germans are going into reverse; jobs in the motor industry have already fallen this year by 15,000 to 765,000 people. More cuts are inevitable as companies strive to become more competitive and offset the effect of high wages and social security costs, as

WESTERN EUROPE'S TOP 20 BEST SELLING MODELS

MODEL	1991	% share	1990	% share	% change
VW GOLF/JETTA	718,000	9.3	626,410	6.2	-12.9
FORD ESCORT/ Orion	613,000	4.5	487,484	3.7	25.7
FORD FIESTA	608,000	4.3	597,830	4.5	1.4
GM OPEL KADETT/Astra	576,000	4.0	591,188	4.5	-2.6
FIAT UNO	538,000	4.0	599,701	4.5	-10.3
RENAULT CLIO	537,000	4.0	148,981	1.1	260.4
PEUGEOT 2	479,000	3.5	508,622	3.8	-4.1
GM VECTRA/CAVALIER	432,000	3.2	416,180	3.1	4.3
RENAULT 19	391,000	2.9	408,713	3.1	-10.2
FIAT TIPO/TEMPRA	380,000	2.8	422,941	3.2	-25.5
VW PASSAT	347,000	2.6	278,439	2.5	3.6
GM OPEL CORSA/NOVA	342,000	2.5	330,029	1.7	37.0
VW POLO	300,000	2.2	318,029	2.4	-15.6
FORD SIERRA	289,000	2.0	218,898	2.2	-10.2
PEUGEOT 405	282,000	1.9	301,195	2.3	-14.0
CITROEN AX	254,000	1.9	283,562	2.0	-3.8
AUDI 80C	253,000	1.9	271,830	2.1	-3.9
FIAT PANDA	242,000	1.8	180,007	1.4	36.4
BMW 3 SERIES	229,000	1.7	230,206	1.7	-0.5
MERCEDES W124					

Source: ADP provisional estimates

well as of shorter working weeks.

"Other European automobile nations have increasingly approached Germany's productivity level in recent years," says Mr Achim Diekmann, the VDA's managing director. "The German industry is no longer able to rely on productivity advances to offset high labour costs. The German industry's production costs are too high, not just in comparison with Japan but also with its European rivals," he adds.

In the past, German produc-

ers could charge a premium for superior technology and quality. But, warns Mr Diekmann: "The premium prices necessary to secure adequate profits at a time of heavy cost pressures are gradually beginning to endanger the market position of German products."

One solution, apart from further cost and job reductions, is to invest in new efficient plants which make optimum use of modern, streamlined manufacturing techniques. Opel and VW are doing this in east Germany, where around 100,000 cars should be pro-

duced this year, rising to more than 400,000 in the mid-1990s. VW is also investing heavily in Czechoslovakia (Skoda), Spain (Seat), Mexico, and China.

But the price for boldness must go to BMW. Earlier this year, it decided to build a plant in the US to circumvent high German costs, insulate itself from gyrations in the dollar's value, and develop more productive firepower for use against its Japanese and other rivals. And, the up-market VW subsidiary, is also considering a North American plant, but BMW will be there first.

FERDINAND PIECH is a disconcerting man with an impeccable and impressive engineering background and a detailed knowledge of the motor industry's newest manufacturing and management methods, many of them originating in Japan, writes ANDREW FISHER.

From the start of next year, he will be in a unique position in the German car industry.

That will not be just because he steps up then to become the next chief executive of the Volkswagen group, though that in itself will be enough to give him a powerful voice in the industry. Enhancing his status - and certainly not making it any less controversial - will be his continued position as head of the supervisory board of Porsche, the problem-ridden luxury sports car company.



Piëch: a tough manager who also has the unions' backing

Because of his independent wealth, Mr Piëch is not shy of speaking his mind. Nor is he averse to knocking heads together in the interests of greater productivity and profitability in an industry which is

Profile: Ferdinand Piëch, VW's manager in waiting

His other car is Porsche

now acutely aware of its high cost burden compared with Japanese and European rivals.

At VW, the 55-year-old Mr Piëch will be taking on the top job at a time of continued pressure on profits. Not only are the company's labour and other costs too high, even compared with its German competitors, but VW is also faced with the problems of adjusting to the revalued D-Mark. With the German currency having moved up by more than 10 per cent against the lira this year, sales to Italy, VW's biggest export market, will not become any easier.

At Audi, the up-market VW subsidiary which he now heads, Mr Piëch has made a strong impact. With an attractive model range, combining solidity with sportiness, Audi has been an important contributor of profits to the VW group, even though it still has to recover fully in the US from the sales slump caused by allegations (of which it was cleared) of unsafe acceleration.

Mr Piëch, a keen skier, jogger, and fast driver, was involved as an engineer in the trailblazing Audi Quattro sports car, the use of galvanised steel to prevent rust, and

significant developments in aerodynamics. *Die Zeit*, the weekly newspaper, said he had "petrol in his veins".

He has shown this in his activities at Porsche, where he continues to exert a strong influence as a member of one of the families who control the company's voting shares. He did not see eye-to-eye with Mr Arno Bohn, the former Nixdorf Computer marketing specialist who has just left as Porsche's chief executive.

The unexpected choice of Mr Piëch to head VW, with the backing of both industrial and trade union representatives on

its supervisory board, shows a clear awareness on both sides of the problems and challenges facing the group. Mr Piëch is known for his tough approach to business, his often prickly manner, and his dedication to constant improvements in productivity.

It was clearly these qualities that led the supervisory board to prefer Mr Piëch over Mr Daniel Goeudevert, who joined VW from Ford-Werke, the German subsidiary of Ford Motor of the US. At one time, Mr Goeudevert, a former Sorbonne professor of literature, looked like the main candidate to suc-

ceed Mr Carl Hahn, whose career with VW dates from the time when he led the Beetle to success in the US market in the 1960s.

Mr Goeudevert, who has strong and unconventional views about the motor industry and its environmental and transport responsibilities, would certainly have been a more conciliatory and collegial boss than Mr Piëch. But the rapid pace of change in the industry upset all the calculations. Originally, Mr Hahn was to have stayed on for two years after his normal retirement date. That would have taken him to the end of next year.

Concern over VW's profitability as it continues with a heavy DMS1bn (\$34bn) programme of capital investment in Germany and abroad led the board to change its mind and time the succession for a year

earlier. At the same time as the news of Mr Piëch's impending appointment emerged, VW said it intended to cut 12,500 jobs from its domestic workforce of 130,000 people by 1996. This would be achieved through natural fluctuation, and VW denied reports that the reduction would total 25,000.

Whatever the final number, the trend is clear: fewer jobs and a determined onslaught on costs. VW made net profits of DM445m (\$278m) in the first half of 1992, a rise of 3 per cent, but pre-tax profits were 17 per cent lower at DM987m. With foreign markets becoming tougher, competition from the Japanese hotting up, and the unity-inspired sales boom at home tailing off, Mr Piëch will be taking the wheel at VW just when the road is getting bumpy.

THERE is little to relieve the gloom shrouding the UK new car market. Sales forecasts have been steadily revised downwards throughout the year, with background fears now being voiced that the market this year could be barely more than 1.5m units - a 35 per cent fall from the record 2.3m units of 1989.

Total output has held up surprisingly well - after eight months it was 0.5 per cent higher than a year ago at

858,204 - but dismal sales prospects for the final quarter of the year are likely to see output for the full year sag below 1991's 1.34m units.

The failure of the UK economy to emerge from recession, and weakness in other important markets like North America, has begun to take a significant toll in short time working, job cuts and other measures to stem losses and adjust output to lower demand. The cuts have been severe in the vol-

ume car sectors and even worse in the executive and luxury car sectors, where Jaguar and Rolls-Royce have been forced into savage cutbacks, with 1,000 workers to go from Rolls-Royce alone.

The year has also seen Lotus, General Motors sports car and engineering subsidiary, abandon production of its Elan small sports car and a string of less illustrious companies collapse then re-emerge with new owners - among them Reliant, Evante, Jensen and Gineetta.

Among the survivors, TVR of Blackpool is doing well thanks to the introduction of its spectacular Griffith "supercar" while Morgan, still producing around 500 of its vintage-style sports cars annually at Malvern, Worcestershire, has merely seen its order book shorten a bit (it still extends for some years) and remains glad it shrugged off the tele-

vised advice of former ICI chairman and TV company "doctor" Sir John Harvey Jones to expand production.

The underlying UK market situation is actually worse than the bald figures indicate. Prof Garel Rhys, professor of motor industry economics at Cardiff Business School, says this has been the year in which, after years of industry pleadings, the UK Government finally acted on the anomalous Special Car Tax, halving it to 5 per cent.

Had there not been an intervention by the Government last month, the struggle for sales between now and the end of the year could easily have assumed a much graver dimension for manufacturers. The collapse of the market this year to levels far below expectations has already left the industry with excess stocks. But in addition there are at least 40,000 unsold cars

which are not fitted with the catalysts which become mandatory on all new cars sold throughout the EC from next January 1.

Had the industry been forced to sell or otherwise dispose of all these before the January 1 deadline, the consequent price war would have made the present situation pale by comparison. However, the UK Government is invoking an EC Commission escape clause under which manufacturers are to be given until the end of next year to dispose of the non-"cats".

The further fall in new car sales in September - down 4 per cent compared with a year ago, leaving year-to-date sales at 1.3m, a further 2.62 per cent below last year - has left manufacturers casting around ever more feverishly for more cars with which to tempt buyers.

A new round of price cuts

was recently started by Ford, its once clear-cut market leadership increasingly being eroded by second-placed Vauxhall and fourth-placed Peugeot-Talbot. (Rover Group is third, but has also been losing market share.)

The price cuts, which apply to stocks of 1992 models only, range from £235 on a basic Fiesta small hatchback to £2,161 on a Fiesta 1.4 litre Ghia - reducing its price to £2,939 - and £2,150 off its sporting RS 2000 model, now selling at £14,000.

Even if the UK market embarks on a firm recovery next year, pricing is bound to come under increasing pressure. Both the UK's Monopolies and Mergers Commission and EEC Commission have identified UK new car prices as frequently being at the high end of the EC spectrum. Potentially more worrying for the industry is a report from Ludvigsen

Associates, the UK-based automotive analysts, asserting that European car buyers as a whole are paying up to one-third more for their car than counterparts in Japan and North America.

Price pressures will be increased, too, by heightened competition as Honda and Toyota join Nissan in UK manufacturing, and both Nissan and Peugeot each start building small cars to complement their respective British-built Primera and Peugeot 405 upper-medium car models.

In the meantime, the competitive position of Rover Group, which manufactures only in the UK and has a very high level of UK content, has been increased by the devaluation of sterling, particularly against the D-Mark. Although Ford has cut sharply its balance of payments deficit on its UK motor trade to £214m last year from £1,297m in 1990, the position of it and Rover's main rivals is less clear-cut because of the amounts of vehicle or components imported from Europe.

However, they remain significantly better placed than importers and distributors of German cars in particular, who

need substantial price increases to compensate for sterling's fall. Recently Mr Tom Purves, managing director of BMW(GB), the executive car maker's wholly-owned importer, said price increases of 12-14 per cent would be needed to compensate for the currency shifts. Equally, he accepted that in current market conditions BMW, Volkswagen and others will have to absorb most of the adjustment through reduced margins.

The share of the market taken by imports is in any case continuing to recede. They accounted for 54.27 per cent in September (55.82 a year ago) and 55.48 for the first nine months of the year (55.97).

Precisely when the UK market is likely to start to recover remains a matter of hot debate. Mr John Towers, managing director of Rover Group, is cautiously optimistic. He suggests that sales could even recover to 1.65m or perhaps even 1.7m units next year. "We know for a fact that there is a lot of money about. Once we break through the consumer confidence barrier, then quite clearly there could be a lot of movement in the market."

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WORLD CAR INDUSTRY 6

FRANCE'S three car makers, Peugeot, Citroën and state-owned Renault, have made big strides in productivity as they prepare to face the Japanese challenge in a liberalised European Community market. They have done so in the nick of time. For France's bilateral import quota on Japanese cars, which has limited their penetration to around 3 per cent of the domestic market for years, is due to go by the end of this year.

Already, the Japanese share of the French car market has been allowed to creep up in anticipation, from 3.3 per cent of new registrations in 1990 to 4.1 per cent last year, according to the Comité des Constructeurs Français d'Automobiles. By 1993, Japanese imports to France could rise from last year's 82,440 vehicles to around 117,000, or 11.1 per cent of the market, according to the European Commission.

The French government appears resigned to opening the floodgates, made inevitable by the 1990 EC-Japan car import agreement, under which the Community market is to be fully liberalised over a seven-year transition period to the end of 1999. Mr Jacques Calvet, the chairman of Peugeot, has condemned the deal as an example of how Europe has "unilaterally disarmed without anything in exchange".

Yet despite Mr Calvet's complaints, incidentally not echoed by his counterparts at Renault, the government is preparing for a controlled arrival of Japanese competition.

French dash to match imports challenge, says William Dawkins

Just in the nick of time

One sign of this is its readiness to allow Nissan to buy out its French dealership earlier this year, ending 10 years of resistance to the deal.

Other Japanese producers are on the move. Fuji Heavy Industries was planning to export Legacy saloons and estate cars to France at the end of September and expects authorisation soon to import Subaru cars. Subaru France hopes to sell 1,000 Fuji cars in the year to March 1993 from 25 new outlets. In June, Suzuki made its first French export sales, though on a very small scale, while Daihatsu is studying the possibility of exporting its Charade models to France.

Only 10 years ago it was unthinkable that Peugeot and Renault could face Japanese competition head-on. They were both on the brink of bankruptcy at the time. Today, they have come through the recession leaner and more efficient and made big improvements in quality.

Last year, for example, the Peugeot group, which includes Citroën, maintains it produced the highest net margins of any car maker in the world, even after having suffered a 40 per cent decline in net earnings.

Renault, reported well over doubled net profits last year, followed by a five-fold rise in earnings in the first half of 1992 and is proceeding so successfully with its alliance with Volvo that both partners talk of a possible merger.

Their payroll costs have fallen dramatically. Renault has cut its workforce by 25 per cent over the past five years, while Peugeot, less overmanned than its public sector rival, has managed a 5 per cent reduction over the same period. The two groups have also successfully introduced just in time stock control, Japanese style production teams in place of the old line management system, reorganised their design departments, and modernised most of their product ranges.

Peugeot reckons to have improved the number of cars made per man by 50 per cent over the past five years, while Renault says it has improved its productivity by 6 per cent to 7 per cent per year over the same period. Both aim at least to repeat that improvement by the end of the decade.

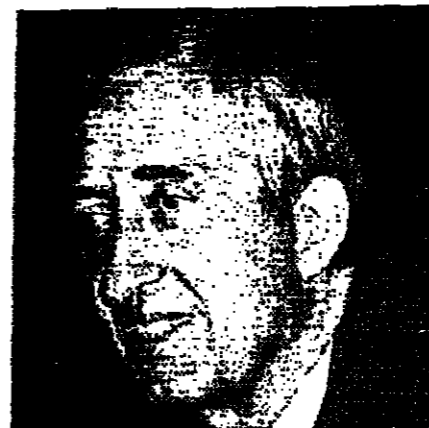
Tighter stock control has saved financial charges for both of them. Yet the extent to

which just in time stock control depends on Japanese style labour stability was sharply underlined by a strike at Renault's main engine and gearbox plant last year, which took only 10 days to halt the group's entire French and Belgian car production, starved of vital components.

The progress has come in the following main areas, where the French industry has not hesitated to adapt techniques from the Japanese competition.

● **Quality control.** Peugeot has abandoned the old style of quality control, whereby faults are identified and corrected in an enormous car park at the end of the production line. Now the lines are divided into sections, each managed by an autonomous team, responsible for correcting its own faults as the vehicle moves through. As a result, Peugeot has over the past five years closed all its refinishing shops. Renault is moving over to the same system and aims to close all its refinishing departments within four years.

● **Components.** Renault and Peugeot are getting less integrated and becoming primarily designers and assemblers. This is achieved substantial cost savings by pool-



Peugeot's Jacques Calvet: we have disarmed unilaterally

but also reflects the fact that neither wants to get involved in the increasing electronic and specialised components found in modern cars.

As a result, the proportion of bought-in components has risen steeply in recent years to just over 60 per cent of operating total costs at Peugeot and 67 per cent at Renault. At the same time, they have set rigorous quality controls on suppliers. Peugeot and Renault have for the past five years been running joint audits on component suppliers' quality, and are thinking of extending this system to cover suppliers' productivity and costs. Renault has also achieved substantial cost savings by pool-

ing much of its component buying activities with Volvo.

● **Design management.** Another part of the race to catch up with Japan is the time and investment needed to design and launch new cars. Here Peugeot estimates that the Japanese still have a substantial advantage, capable of launching a new model for around FF3-4bn in three years, as against the French average of FF1.6bn to FF1.8bn in four to five years. These comparisons are, of course, rough, since there is no standard measure for the starting point of a new design.

The time taken to design and launch Renault's latest small car, the Twingo, was in line with Japanese experience, says Mr Philippe Gras, deputy chief executive. On average, Renault aims to produce a new model in just under four years, down from the nearly five years that used to be the norm. Peugeot last year placed the design teams of its two sister companies under a single management to help them work faster and expects to produce the first concrete results from 1994.

Even so, Renault and Peugeot have some way to go before they can meet Japanese standards of productivity. The results of all these efforts is to bring the French car industry's productivity to just 10 per cent behind that of Japanese car producers in Britain, itself 10 per cent behind the Japanese in Japan, according to a study by consultants McKinsey for the European Commission.

Italy's Fiat falls behind in Europe, says David Lane

Overtaken on the bends

THESE are challenging times for Fiat. August's new car registrations in western Europe show that the Turin auto-maker suffered a 7.1 per cent volume drop in the first eight months of the year, giving it 12 per cent of the market.

After falling only by the narrowest of margins to capture the number one position in west Europe from the Volkswagen group in 1988 and 1989 with a share of 14.9 per cent, Fiat has slipped back since 1990.

A contributory factor has been the Fiat Group's continuing slide in its home market. Deliveries of the Group's Lancia-Autobianchi, Alfa Romeo and Innocenti ranges in Italy have all fallen heavily. In the first eight months of the year Lancia-Autobianchi's figures were 8.8 per cent lower with 124,700 deliveries, while Alfa Romeo was 4.4 per cent down with 77,600 and Innocenti 16.1 per cent down with 8,900.

Of the Turin Group's principal badges only Fiat advanced, improving by 1.3 per cent to 544,200 deliveries.

But in a market that grew by 4.7 per cent, the increase in the number of deliveries was insufficient for Fiat to keep its market share. This fell from 32.7 to 31.8 per cent.

In contrast to the Fiat Group, importers have been enjoying a good year in Italy. Their deliveries rose by 9.8 per cent to

956,500, and their aggregate market share increased from 63.2 to 65.8 per cent.

Fiat has been missing the opportunities offered by a strong home market. "We expect deliveries of new cars to be almost 2.5m this year, only slightly down on 1991 and confirming Italy as Europe's second largest market," say officials at Unione Nazionale Distributori Automotoveicoli (the importers' association UNRAE).

They attribute the buoyancy to two factors: traffic restrictions in large cities at the beginning of the year which encouraged purchases of new cars fitted with catalytic exhausts and the large backlog of orders for new models such as Volkswagen's Golf and GM's Astra.

UNRAE's figures show that Volkswagen recorded an increase of 28.4 per cent in the first eight months, and with deliveries of 172,000 it took 10.0 per cent of the total market. GM achieved a rise of 37.4 per cent to 92,400 deliveries and a market share of 5.4 per cent. But notwithstanding this improvement, GM still lags behind Ford (11.2 per cent market share) and Renault (7.8 per cent) in the importers' league, as well as Volkswagen.

"Competition between all the makers, Fiat Group and the importers, has always been tough," notes UNRAE. That market gains are ferociously sought and expen-

sively bought in Italy has been especially clear to Italian television viewers and newspaper readers this year, as car makers have engaged in very competitive marketing across the media.

Price has been an important weapon, and it has been used extensively by Fiat which has offered low-cost finance and extra trade-in discounts to lure potential buyers into its showrooms. Already conscious of the price factor, importers are concerned that the lira's devaluation and exit from the ERM will reverse the gains they have made.

Cars of German and French origin are the most vulnerable. UNRAE officials note that foreign makers are trying to absorb the higher lire costs. "In seeking market share, importers have kept their half-yearly list rises between 1.5 and 2 per cent."

UNRAE points out that the recent emergency economic package will help Fiat. Protectionism is never far below the surface, and the Turin Group should benefit if a discernible undercurrent of "Buy Italian" sentiment develops into full flood.

With conditions becoming tougher, this is not the easiest time for Japanese makers to tackle the Italian market. However, importing mainly from Britain and Spain, they should not be handicapped by the



Fiat's Polish-made Cinquecento: it will not spearhead a recovery

lira's devaluation against the D-Mark and French franc.

Japanese cars have long been presented as a threat to be fought with all possible means. It is significant that Ford and Opel and other GM models are categorised as German, rather than as US transplants, whereas British or Spanish cars bearing Japanese badges are labelled with Japan as producer country. Results so far this year suggest, however, that they have not suffered.

Nissan's sales have roared ahead. Deliv-

eries of 17,000 between January and August were 41.3 per cent higher than in the same period last year, giving Nissan market share of 1.0 per cent. Honda's deliveries advanced by 19.5 per cent to 7,400, and a market share of 0.4 per cent. And while Toyota's deliveries were virtually static at 3,300, this will change when its British plant starts producing.

Italians are not immune to the appeal of Japanese technology and reliability, particularly when these qualities are allied to design flair.

Attractive new models with Japanese names are winning ground in an Italian market in which the clock will not be turned back to the era of Fiat rule.

Indeed, the Turin Group will have a hard struggle to keep its share above 40 per cent over the next two years. With the continuous flow of new models from foreign makers, Fiat Group will be fully stretched to hold ground through face-lifting efforts to its ageing range.

Launched earlier this year, the small "Cinquecento" made by Fiat's Polish venture cannot be expected to spearhead a recovery. Volumes are too small, with a substantial part destined, in any case, for the Polish market, and margins are low on such a car.

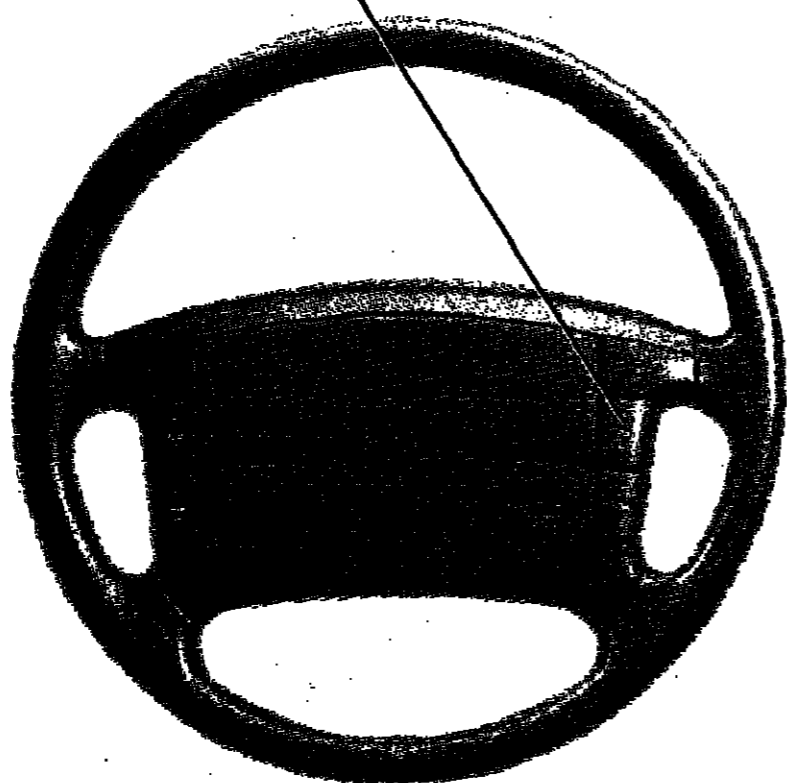
Fiat will have to wait until new models are leaving the production lines at the green-field plant currently under construction at Melfi in Italy's insipid region of Basilicata.

Declaring its six-monthly results at the end of September, Fiat recorded pre-tax profits down from L1,455bn to L655bn and a significant worsening of net financial position from surplus of L431bn to indebtedness of L2,510bn. "The prospects for the second half appear even more difficult. To the virtual stagnation of the world economy are added the effects on demand of the measures that the Italian government is adopting," says Fiat.

The company adds, "Macroeconomic conditions pose a great challenge to the company." Next year offers much gloomier prospects than 1992. With its Melfi models, Fiat cannot afford less than immediate, blockbusting winners.

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WORLD CAR INDUSTRY 7

Eastern Europe's low-paid labour force attracts western investment, writes Anthony Robinson

Green shoots in communism's ruins

EASTERN EUROPE has emerged as a crucial new element in the struggle by European and US car-makers to reduce their costs and increase market share in their global struggle with the Japanese producers.

Volkswagen and Fiat, Ford and General Motors have spearheaded the move into Eastern Europe with substantial investment in new assembly plants and component factories in former east Germany, Czechoslovakia, Hungary and Poland.

Among a plethora of smaller-scale licensing and production pacts Renault and Citroën of France are discussing the upgrading of long-standing licensing assembly operations in Romania. Rover group, the UK car manufacturer, is involved in a joint venture with the Bulgarian defence ministry to assemble cars, as well as landrover and pick-up trucks, at former military factories in that country.

The Japanese carmakers have so far shown their habitual caution before investing in largely uncharted areas, although they have been actively boosting sales of cars from their UK and other plants into Poland and other new markets.

Suzuki has been the first Japanese producer to take the

plunge, building an assembly plant to make 60,000 Swift models a year at a new plant at Esztergom in Hungary. The Suzuki plant, built on the site of a former Soviet military base, is building up production from components imported mainly from Japan. But it plans to export most of its output to European Community markets so its viability depends heavily on Suzuki's ability to switch from expensive imported components to at least 60 per cent local content by 1995.

The caution of the Japanese has been partially justified by events. The transition to a market economy is proving a complex, bruising process accompanied by a sharp fall in industrial production and a steep decline in real incomes for large sections of the population. At the same time, however, income gaps have widened.

Societies formerly marked by a large measure of egalitarianism at a low level of income have seen rising unemployment and the pauperisation of

large sections of the industrial working class. It will be a long time before most of these people will be able to afford a car, especially a new car.

At the same time, however, the last three years have seen the emergence of a small, but rapidly growing class of wealthy, or relatively wealthy individuals. This is reflected in rapid growth, albeit from a minuscule base, in the sales of luxury cars, especially Mercedes and BMWs. But the rapid growth of the private sector, especially in Poland but on a rising scale throughout the area, has created a strong demand for imported new and second hand cars.

Poland alone imported nearly 400,000 western vehicles last year, of which 60,000 were new. Czechoslovakia and Hungary showed a similar pattern as those with hard currency savings - senior employees of newly set up foreign-owned companies and local entrepreneurs - rushed to satisfy their pent up desire for a western car. This demand helped to fuel



last year's booming European car market, both directly and by underpinning used-car prices. But it will clearly take much longer than originally expected before the markets of eastern Europe, and especially the markets in Russia and the other former Soviet republics,

live up to their long term potential as mass markets. This means that manufacturers are down-grading their expectations of domestic sales from their new plants and placing greater emphasis on the hoped for lower costs of production of vehicles and compo-

nents destined for European Community markets.

This is especially true of Fiat which decided to source Europe-wide sales of the new Cinquecento model from the FSM plant in southern Poland where it plans to spend another \$850m over the next few years.

Low wage costs of around 10 per cent of German levels for assembly line workers were a major attraction to new investors. The prospect of lower costs was behind Fiat's plan, for example, to take 90 per cent control of FSM and make the new Cinquecento mini-car in Poland as part of a \$2bn long term investment project.

The aim is to build up Cinquecento output to 240,000 a year and introduce a new model at the nearby Bielsko Biala plant. But this strategy began to look decidedly risky when unofficial unionists staged a seven week sit-in strike to press for wages more in line with Italian workers at similar plants in Italy.

Thanks largely to the Polish government's tougher policy

on labour disputes the strike ended in mid-September on terms originally agreed between Fiat and the official unions. This provided for a 30 per cent rise in wage rates but fell far short of the strikers' demands for wages equivalent to 10 per cent of the retail price of the Cinquecento.

Nevertheless the strike lost output of 15,000 vehicles, wrecked Fiat's expensive advertising campaign, and allowed Subaru to sneak into Fiat's crucial home market by selling 6,000 of its own mini-cars while Fiat looked on helplessly.

Volkswagen, meanwhile, is building a new plant at Mosel in the Saxon region of former east Germany to produce 250,000 Golf cars a year while hoping to repeat in Czechoslovakia its successful re-vamp of Seat in Spain. The German company, whose initial 30 per cent stake in Skoda Automobil, the Skoda-VW joint venture, will rise to 70 per cent by the middle of the decade, is busy raising a \$1.2bn syndicated loan.

This will finance the start of a DM\$8bn investment programme which will raise capacity from the present 200,000 to 460,000 by mid-decade, and progressively introduce new models alongside the existing Skoda cars. VW is also assembling up to 30,000 Audi models a year at Bratislava, the Slovak capital.

Volkswagen, General Motors and Fiat have been in the forefront of moves by the major western manufacturers to secure tariff protection for the products of their new eastern plants. The battle has been particularly strong in Poland where VW plans to assemble vans and GM, whose main investment in Central Europe is its \$300m engine and Astra assembly plants at Stentogard in Hungary, has just produced a modified plan to assemble 35,000 Astra cars a year in a \$75m investment at the FSM plant in Warsaw.

On top of the 30 per cent tariff on imported cars the "big three" are also pressing for a 30,000 tariff free import quota to be divided among themselves - to howls of protest from other importers like Peugeot. The automobile industry in Eastern and Central Europe has come a long way in three years, but not quite along the route originally imagined.

US giants are beginning painfully to claw back their home market, writes Martin Dickson

Long night's journey into day

THE US motor industry is emerging with painful slowness from a severe recession and heavy financial losses, but it is getting in much better shape to fight the never-ending battle against Japanese competition.

The Big Three manufacturers - General Motors, Ford Motor and Chrysler - have collectively lost billions of dollars over the past two years.

This was due to plummeting demand in North America at a time when an expansion of Japanese manufacturing capacity in the US - the so-called "transplant" operations - was adding to the industry's chronic imbalance between potential supply and demand. The result was a fierce price-cutting war.

Yet the recession has at least forced the Big Three to become much leaner in their day-to-day operations. Ford and Chrysler, having suffered financial crises in the early 1980s, had less slumping to do than General Motors, which had been shielded for years by its huge market share, a buoy-

ant car market and its large non-automotive subsidiaries.

Yet even GM, which as a group lost \$4.5bn last year, has finally been forced to bite the bullet. It announced sweeping factory closures last December, while in April a coup by board members gave added urgency to the revitalisation programme.

Mr Jack Smith, who in the 1980s played a major role in turning around GM Europe from losses to profit, was appointed the group's president with a mandate to speed up change in North America.

One of his most striking moves has been to appoint a new Spanish head of GM's parts purchasing operation, who is seeking controversial price cuts from suppliers while at the same time trying to forge closer, long-term rela-

tions with them, in a manner reminiscent of Japanese automobile companies.

Indeed, across the board a striking feature of all the Big Three companies is how much they have learnt from their Japanese rivals.

Mr David Cole, director of the Office for the Study of Automotive Transportation at the University of Michigan, says: "The domestic manufacturers are really getting religion fast and are becoming much more viable competitors. I have a higher level of confidence about their long term success than I would have had a couple of years ago."

Chrysler, for example, has totally remodelled the way it does business after closely studying Honda. It has forged close links with suppliers, who are brought in to discussions

10 BEST SELLING MODELS IN US

Make/Model	6-months 1992	6-months 1991	% change
Honda Accord	282,814	277,589	-5.4
Ford Taurus	238,352	202,013	18.0
Ford Escort	192,527	167,776	14.5
Toyota Camry	187,102	180,288	3.8
Chevrolet Lumina	153,721	151,880	1.3
Pontiac Grand Am	152,159	108,040	40.8
Ford Tempo	148,773	124,873	20.1
Chevrolet Cavalier	147,960	132,515	-23.1
Honda Civic	143,405	154,089	-6.9
Toyota Corolla	140,731	131,730	6.8

Source: Automotive News

early in the development of a new car, and created new platform teams, responsible for development of various types of vehicle, which brought together members of different disciplines.

Parts of General Motors have also learnt lessons from the Japanese. Cadillac, the luxury

car manufacturer, studied the methods of Dr Edward Deming, the academic behind much of the Japanese management philosophy, and won an important US quality award.

And Saturn, the small car project General Motors launched in the 1980s as a stand-alone attempt to exceed

Japanese methods of sophisticated manufacturing, has produced a vehicle which is one of the hottest on the US market. Embarrassingly for GM, it is also in extremely short supply.

The quality of US cars is also much improved, although still a little behind that of Japanese rivals. According to the latest Initial Quality Study from the consultancy J.D. Powers, the average Japanese make had 105 problems per 100 cars in the 1992 model year, down from 112. The Big Three score was 126, down from 148.

Still, analysts say these headline figures mask a wide range of variation among products and manufacturers, and that not all Japanese products are in the top rank.

The improved quality image of US vehicles may be one factor why the Americans have

been clawing back market share from the Japanese. In the first six months of this year Japanese cars accounted for 29.1 per cent of the US market, down from 29.8 per cent in the same period of 1991. When cars made in Japanese plants, but sold by US companies, are included in the tally, the Japanese share dipped from 36 per cent to 34.4 per cent.

Another factor may have been the lower rate of price increases pushed through by the Big Three compared with their Japanese rivals, whose parent companies are now suffering from Japan's slowdown.

Detroit, in other words, no longer sees its Japanese rivals as invulnerable. Many view this year's market share gains as a temporary breathing space, although Mr Robert Lutz, president of Chrysler, has

predicted that the Big Three will take one to three percentage points of car and truck market share back from the Japanese each year through to the mid-1990s.

Whatever happens, the vehicle market does seem to be recovering, with overall US car and truck sales up 5 per cent in the first six months of this year. For 1993 analysts are forecasting sales of around 14.5m vehicles, up from a little over 13m in the current year.

That, in turn, should restore the Big Three to the black and give them greater financial security as they fund development of new models for the next five years.

However, some major and potentially worrying unknowns still hang over the industry as regards Government policy in areas such as tighter controls over automobile emissions and greater fuel economy. In the medium term future of the industry, says Mr Cole, "the wild card is the Government-industry relationship and the policy agenda that emerges".

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WORLD CAR INDUSTRY 8

America's Big Three offer each other a helping finger, writes Martin Dickson

Imports subdue old rivalries

A RENAULT ESPACE mini-van, waiting to be taken apart in a Detroit workshop, is about to write a small but significant chapter in US motor industry history.

The van will be the first to undergo a "tear-down" - taking apart a vehicle for competitive analysis - by a joint engineering team involving all the Big Three Detroit manufacturers - General Motors, Ford and Chrysler.

The trio has decided to save the money each would normally spend to buy and deconstruct foreign rivals' vehicles by pooling their efforts.

It is a prime example of an unprecedented wave of cooperation among the Big Three, ranging from research spending to political lobbying, as they battle against Japanese manufacturers for competitive edge and market share.

In the political arena, the three consult closely on issues such as trade - they filed a joint anti-dumping suit last year against Japanese mini-van manufacturers - and on motor industry regulations, such as exhaust emission controls.

As Mr Lee Iacocca, the chairman of Chrysler, said in a recent interview: "We're in consortia: we have continual

discussions on health care costs, on regulation, on trade matters...three groups we set up a year and a half ago. We said: 'Hey, guys, we may have differences but we can't tell the government we've got three different stories - that doesn't work in any negotiation'."

However, it is in the area of research and development that some of the most remarkable

In the past four years, the Big Three of the US have pooled their research and development efforts in nine different fields

cooperation is now taking place. The Big Three have pooled their resources in research in nine different areas over the past four years.

Until recently this would have been impossible, partly because of rivalry between the three but mainly because the US Government, pursuing a stern anti-trust policy, ruled out cooperation.

Back in the late 1980s the Justice Department slapped a ban on an attempted collaboration by the trio to lower exhaust emissions. The offi-

cial feared the motor companies would try to stymie any breakthroughs in the field and delay the introduction of emission controls.

However, Government attitudes changed in the 1980s as the US found its manufacturing industries losing ground in the battle against Japanese competition, which benefited from strong Government support and corporate cooperation. The result was the 1984 National Cooperative Research Act, which allowed US industry as a whole some exemption from anti-trust provisions for research work in so-called "pre-competitive" technology fields.

Just what constitutes pre-competitive activity is something of a grey area, but it broadly means anything that comes before a manufacturer seeks to incorporate a R&D breakthrough in one of his products.

The automobile industry's first joint project came in 1985 when GM, Ford and Chrysler formed a consortium to study the use of polymer composites for structural vehicle parts.

Others set up since then include three in the field of vehicle emissions: one, carried out in conjunction with the oil industry, looks at ways of improving air quality; another

looks for new accurate instrumentation to measure low level emissions; and a third tries to accelerate the development of new emission control technology.

Another important consortium, formed early last year, is trying to develop advanced batteries which might give much more power and range to electric vehicles.

So many joint ventures are under way that last summer the three companies set up a special umbrella organisation, called the United States Council for Automotive Research (USCAR), to coordinate and monitor the efforts.

The executive director of USCAR is Mr Don Walkowicz, formerly GM's manager of technical staffs and business planning, who is on secondment to the umbrella group for two years.

He says the opportunities for new consortia "are endless...the task and the challenge we have is to figure out what is the greatest opportunity to get some synergistic effect out of pooling all the three groups together."

"We don't agree to work on something cooperatively unless it's a technology that all three companies agree has promise - and the three companies are

still very competitive when it comes to the final product."

He also points out that a new R&D challenge for the industry - both the consortia and individual auto companies - is to tap in to the huge pool of expertise available in US Government research labs. These used to be preoccupied with military applications but now, with the collapse of the Soviet empire, they are being encouraged to cooperate more with civilian businesses for the greater good of the US.

Certainly, the auto industry consortia are unashamedly designed to boost the US manufacturers relative to their foreign rivals. A Japanese company which made overtures about joining the advanced battery project was turned down.

Mr Walkowicz says USCAR's attitude toward foreign, particularly Japanese involvement is:

"We're looking at a globally, technologically competitive situation. The Japanese manufacturers have traditionally had this Government-industry partnership and what we're trying to do is catch up with them...our goal is to make US auto manufacturers better than their global competitors." One of the greatest problems



In the same boat: GM's Robert Stempel, Ford's Harold Polling and Chrysler's Lee Iacocca

■ The meaning of NAFTA

Birth of a trade block

THE INITIALS NAFTA represent a significant diplomatic victory for the US automobile assembly and parts industry in its long-running battle for market share in the North American market against Japanese competition.

For the North American Free Trade Agreement, which was clinched in August after months of negotiations, will force Japanese manufacturers to increase the local content of vehicles they sell in the US market and give their American rivals an advantage in the fast-growing Mexican market. The agreement also promises to end much of the current statistical controversy between the US and Japanese industries over precisely what constitutes "local content" in a North American vehicle.

The Nafta agreement, which has yet to be ratified by the legislatures of the three countries involved, will create a free-trade area of 360m people in Canada, the US and Mexico.

While the Japanese will have to increase the local content of vehicles sold in the US, American car sales in Mexico will benefit

Thousands of tariffs, duties and non-tariff barriers will be eliminated over the next decade and a half. The agreement will supersede an existing free-trade agreement between the US and Canada.

Trade in automobiles and automobile parts constitutes one of the most important elements of the agreement and focuses on two main areas.

First, existing Mexican rules which specify that any cars sold in that country must have a 36 per cent local content will be relaxed to 29 per cent over a 10 year period.

Second, vehicles built in any of the countries but sold in one of the other two will require a 62.5 per cent content of North American parts to avoid duty. This will be phased in over eight years.

For the first four years, the local content requirement will be 50 per cent - the same as it is now under the US-Canadian pact. And it will then be held at 56 per cent for another four years.

The major winners from the pact appear to be:

- the US and Canadian assembly plants of the Big Three US manufacturers, which are expecting a sharp boost to sales from a newly opened Mexican market. Demand for cars is growing rapidly in Mexico as the country's economy booms.

- US automotive parts companies, which see an opportunity both to sell more parts into the Mexican market and to so-called Japanese transplants - Japanese car plants in the US and Canada - which need to boost their local content.

- the Mexican automobile industry. Less efficient parts of the industry - essentially manufacturers of big cars - are likely to suffer from more efficient American competition. But this seems likely to be offset eventually by increased production in Mexico by the Big Three of small vehicles to serve the entire North American market.

Cheap Mexican manufacturing costs could help the Big Three claw back parts of the small car market which have been lost over the past decade to offshore Asian competition.

The main losers look like being:

- the US United Auto Workers' Union, which fears the Big Three will shift jobs from the US to Mexico, where labour costs are far below those of the US and environmental regulations relatively relaxed. "This deal in its present form will vaporise thousands and thousands more good-paying American jobs," according to Mr Owen Bieber, the UAW's president.

However, there is such over-

capacity in the US market that no-one expects a rush by the Big Three to locate south of the border and many analysts argue that the UAW would lose these small car jobs anyway to Asian competition. Far better, runs the argument, to lose them to Mexicans in the same trading bloc, thus creating wealth which may then be spent on more luxurious cars built in the US.

● Japanese manufacturers, who immediately branded the pact a "giant step in the wrong direction". The Japanese had been pressing for the domestic content rules to stay at the present 50 per cent.

The Japanese will be at a disadvantage relative to the Big Three because their local content is generally less than their North American rivals now, and because the Big Three have a much larger existing manufacturing base in Mexico, which under Nafta they will be able to include for domestic content purposes.

Of the Japanese, only Nissan currently builds vehicles in Mexico, making some 142,000 units a year, compared with 192,000 for General Motors, 220,000 for Ford and 194,000 for Chrysler.

The Japanese will therefore have to increase their North American content significantly, which they complain will mean expensive retooling.

It remains unclear just how much this will benefit US-owned parts manufacturing companies. The reason is that 350 to 400 Japanese parts companies already have manufacturing operations in the US and the Japanese assemblers, with eight transitional years until the new content rules come fully into effect, seem certain to continue relying heavily on their compatriots.

That said, the Japanese assemblers are under strong political pressure to buy more parts from manufacturers located in the US, be they US or Japanese owned.

Last January, President Bush made a controversial visit to Japan, accompanied by the chairmen of the Big Three, to pressure the Japanese to buy more from the US and thus reduce the huge Japanese surplus on auto trade with the US. The Japanese agreed to increase purchases of US parts from \$10bn in 1991 to \$18bn in 1994. Most of this is expected to go into cars built in America

The US auto workers union fears that the big US car manufacturers will transfer many American jobs to Mexico

for the local market, rather than being US parts exports to Japan.

However, precisely what constitutes "local content" is currently far from clear - a situation highlighted by the case of Honda Civics built in Canada and sold in the US. According to Honda, these contain 69 per cent North American parts, and should thus qualify for duty free entry to the US under the 50 per cent rule.

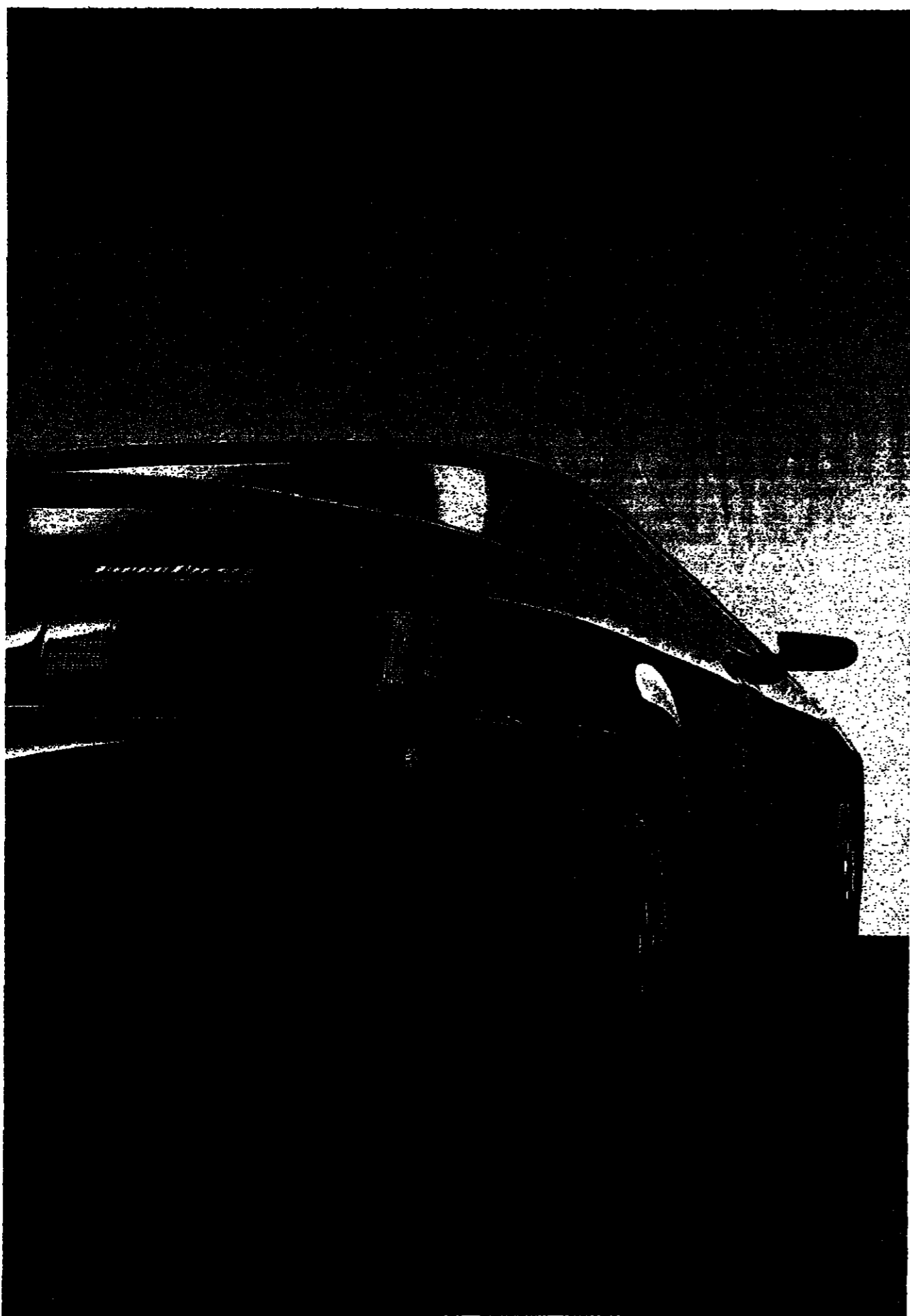
The US customs service contends they only have a 46 per cent North American content. A key reason for the ruling was that Honda engines which go into the Civics, and which are made in the US, were deemed not to be American because they contained less than 50 per cent local content. Under the customs rules, they were therefore "rolled down" to count as zero local content. If they contained over 50 per cent, they would be "rolled up" to be 100 per cent locally manufactured.

Nafta Promises to inject more rationality into the system. It will do away with "roll up" and "roll down" and instead trace individual parts back to their point of origin to establish just how truly North American they are.

Martin Dickson

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مكتبة العامة

WORLD CAR INDUSTRY 9

General Motors is pulling no punches in its fight for financial recovery, says Martin Dickson

Blood, tears and factory closures

THE cries of pain and anger echoing around Detroit these days are those of a revolution in the making. At General Motors, which is urgently trying to return to financial health.

The pain is from GM's suppliers, who are being asked to slash their prices; from the United Auto Workers union, which faces plant closures; and from white collar workers, who will, among other things, have to start paying part of the premium for their health insurance.

GM is trying to rush through a slimming regimen which it should have made in the 1980s but failed to carry out because of its sheer size, inflexible bureaucracy, and a traditional arrogance which failed to recognise how much the world was changing.

The question now is whether it can move far enough, fast enough, given its bureaucratic nature and union opposition to job losses, and make itself sufficiently strong to match the formidable challenge from Japanese manufacturers.

The changes began late last year when Mr Robert Stempel, the chairman, announced the first phase of plans to revive GM's core North American vehicle operations, which lost some \$6bn to \$7bn last year. He revealed that over the next few years the group would close 21 plants and cut some 70,000 jobs.

■ Profile: Jack Smith of GM

Quiet man with the world's hardest job

JACK SMITH arguably has the hardest job in the world automobile industry.

As president and chief operating officer of General Motors Mr Smith faces the formidable task of returning the company's core North American automotive operations to the black, and quickly.

Mr Smith was catapulted into this position last April at the age of 54 when GM's board staged a coup, which was prompted by its unhappiness over the relatively slow pace of change under Mr Robert Stempel, the group's chairman, and Mr Lloyd Reuss, the then president. Mr Stempel's wings were clipped and Mr Smith, the then head of international operations, took over from Mr Reuss.

Mr Smith, who was passed over for the presidency two years ago when Mr Reuss became chairman, now has the task of slimming down GM's bloated bureaucracy, closing inefficient or redundant plants, rationalising its model range and cutting its cost of parts by making its suppliers more efficient.

But Mr Smith is no stranger

to corporate turnarounds. He made his mark in Europe in the mid-1980s when he turned around GM's operations there from heavy losses into one of the corporation's most profitable businesses - and the way he went about that provides a case study in the rapid change now engulfing GM in North America.

A quiet, unassuming man who still speaks with the accent of his native Massachusetts, Mr Smith has a reputation for decisiveness and a willingness to delegate - an important factor in an industry which is learning the importance of "empowering employees" to take on more responsibilities.

His initial expertise in GM was in finance but by proving himself as a successful operating manager, he bridged the traditional gulf in the motor industry between "bean counters" and "product men".

His European success was due in part to fortuitous circumstances, including strong economic growth and Japanese import restraints, yet he also made several bold, crucial changes to the way GM operated on the continent.

First, GM did not increase its manufacturing capacity at a time of rising demand but instead worked its existing plants much harder.

Mr Smith persuaded European unions to work three shifts, around the clock, rather than the traditional two eight hour sessions.

In an interview with the Financial Times last December Mr Smith recalled: "One of the lessons we learnt in Europe is that there is a lot of room to increase capacity in an existing plant through innovative shift arrangements, through concepts such as

This was a major change in stance by the company, and meant final recognition that the market share it lost in the 1980s to Japanese and other American manufacturers was not going to come back. During the decade GM's US market share fell from around 46 per cent to 35 per cent, but its plant closures did not keep pace.

The result was that it entered the recessionary downturn of the past two years with its plants working at a far lower percentage of capacity - around 60 per cent, according to analysts' estimates - than its rivals, thus compounding its losses.

However, even the raft of changes set in motion with Mr Stempel's December announcement did not go as rapidly as the GM board hoped and in April it staged an extraordinary coup. Control of the board's executive committee was taken from the chairman and given to a non-executive director, Mr Lloyd Reuss, the company's president and the man responsible for overseeing North America, was removed from that job and his place taken by Mr Jack Smith, head

of international operations.

It is Mr Smith who is now implementing the group's previously agreed strategy, though he has introduced several creative touches of his own and is bringing to the task an urgency which was previously lacking.

General Motors' plants entered the recession working at a much lower capacity than their rivals

ously lacking. Nowhere has this urgency been more evident than in the activities of Mr J Ignacio Lopez de Arriortua, a Spaniard who took over GM's European parts suppliers in the 1980s and has now been called upon to do the same in North America by Mr Smith.

IT IS hard to follow a living legend, but that is the task that faces Mr Robert Eaton who will take over as chairman of Chrysler from Mr Lee Iacocca, the man who oversaw the company's return from near financial death at the start of the 1980s.

Bob Eaton was named last spring as the surprise choice to succeed Mr Iacocca. The Big Three US motor manufacturers usually pick their chairmen from within, but Chrysler went outside to rival General Motors, plucking Mr Eaton from his position as president of GM's European unit.

But while Mr Iacocca will be a tough act to follow, Mr Eaton has at least joined the company at a good time, when its fortunes have suddenly rallied.

Just two years ago some motor industry analysts questioned whether Chrysler could survive as an independent company. After its remarkable escape from near bankruptcy in the early 1980s, the company seemed to rest on its laurels, diversifying into non-automotive businesses and failing to develop quickly a new range of cars to replace its ageing K series models.

It was heading into a recession with a stretched balance sheet, losing market share and facing huge financial demands to develop new models.

But adversity has bred resilience. The balance sheet remains weak but Chrysler is at least now seen glimmers of light at the end of the tunnel. It has slashed its operating costs and revamped its method of developing new vehicles to the point where some analysts are now calling it a model for the US industry.

Mr Lopez has caused immense controversy in the parts industry by demanding big cuts in prices by GM's suppliers, which he says can be achieved if they improve their efficiency.

The suppliers have accused him of undermining their relationship with GM by putting out for fresh bidding contracts they thought they had already won, including in some cases sensitive information which they regarded as proprietary.

The supply industry, which went through a major rationalisation in the 1980s, says GM is now demanding further efficiency improvements which are simply not there to be had. But Mr Lopez insists otherwise, and is offering suppliers the help of GM teams to identify waste and inefficiency. Whatever the rights and

wrongs of the situation, it is sending a powerful message to Detroit that GM has changed. It is no longer business as usual.

This message is also being drummed home to GM's own subsidiaries, which supply some 70 per cent of the group's parts, making it highly vertically integrated by the standards of the automobile industry. Mr Lopez is putting teams of efficiency experts into these operations as well and warning them that they can no longer rely on GM as a captive customer, but must earn the right to sell to the company along with the world's best.

There is a danger in this strategy of clashes with the United Auto Workers union, which is strongly opposed both to job cuts at GM and the loss of supply contracts to outside

companies. But it was a reluctance to take tough action in the past which has brought GM's North American operations so deeply into the red now.

The delicacy of relations with the union was brought home in September when GM's plans to eliminate 240 UAW jobs at a tool and die shop in Lordstown, Ohio, led to a nine-day strike which stopped production of some of the company's most popular vehicles.

This was widely interpreted as a shot across GM's bows by the UAW, ahead of next year's renegotiation of a three-year labour contract, to demonstrate that the company cannot slim down as it wishes without considerable resistance.

But GM too can play hardball: one of the plants on its list of 21 due for closure is Willow Run, just outside Detroit. Most analysts had expected this plant to stay open and one in Texas, making the same car, to close. However, the Texan plant survived after its UAW workers agreed to more flexible working practices sought by the company.

Even if GM can slash its cost base, it will still face the task of producing cars that US consumers want at prices they are extremely mixed. In the 1980s it became notorious for making dull, look-alike cars of

dubious quality. But here too the company is changing substantially. Its quality is now generally regarded as close to Japanese rivals.

Cadillac, its luxury car brand, has a big hit on its hands in the new Seville, while the group's small Saturn is in such demand that dealers cannot get enough of the model.

Saturn, which is manufactured by an entirely separate company, using state-of-the-art management and production techniques, demonstrates what high standards GM can achieve. So too do its extremely successful European operations.

And for all its current woes, the company retains immense strengths: it is a formidable technological leader at a time when this is more important than ever in the development of new vehicles. It is still huge, allowing large potential economies of scale. And it has a vast dealer network.

The revolution could still come to grief, but the company's prospects look brighter than for many, many years.

■ Profile: Robert Eaton, Chrysler's next chairman

Heir to the Iacocca legend



Changing the guard at Chrysler (left to right): chairman Lee Iacocca, president Robert Lutz, and Robert Eaton, the former GM Europe president, who will succeed Iacocca on January 1, 1993

flair for the development and marketing of new products.

Mr Eaton himself reckons the most important attributes he has brought to the company include a "relatively broad view of the industry - European, Japanese etc. - and a very strong background and track record in cost, quality and product".

His European experience is of limited direct value to Chrysler since it has virtually no overseas operations, though it is growing its export business to Europe fast from a low base and now has a mini-van production joint venture in Austria. Still, Mr Eaton reck-

ons his time in Europe will be valuable because it has given him a "broader perspective of the US and its problems in comparison to the rest of the world".

Mr Eaton grew up in Colorado, took a degree in engineering and joined GM as a trainee in 1963, working his way up the group's engineering side. His most important break came when the company sent him to Europe in 1988 to take over from Mr Jack Smith - now number two at GM - who had begun to turn around the area from losses into GM's most successful automotive operation.

Mr Eaton carried on the Smith tradition and won particular plaudits for negotiating new flexible working agreements with European labour unions and for GM's rapid move into the east German market.

A down to earth man with reputation for frugality and informality, Mr Eaton will take over next January as chairman, although Mr Iacocca will remain on the board as chairman of the executive committee for one year (extendable) and will continue to do some consulting for the company.

This has led some analysts to suggest that Mr Iacocca, who has evidently found it hard to

quit the company, might remain breathing down Mr Eaton's neck. However, Mr Eaton quotes Mr Iacocca as saying "I'll be retired and I'll no longer be involved in any day to day operations of the company".

A diametrically opposed problem arose in August when Mr Kirk Kerkorian, the Californian who is the company's largest single investor, demanded a meeting with Chrysler executives to express concern about the reduced role Mr Iacocca would be playing after January.

However, after a two-hour meeting he seemed to go away happy. Part of his concern seemed to be the fact that he had never met the new chairman. Mr Eaton acknowledges that "in hindsight I probably should have met him earlier..." but says relations are now excellent.

Where does Mr Eaton see Chrysler five years down the road? "I believe the company has the opportunity to be the premier North American automobile company from the standpoint of product, quality, cost and customer satisfaction, and giving a very good return to its shareholders," he says. By premier he obviously does not mean the largest - since Chrysler is by far the smallest of the big three - though he thinks it could be able to increase its share of the US car and light truck market from the current 13 per cent to 15 per cent. For a company which just two years ago seemed the sick man of Detroit, that is no mean achievement.

Martin Dickson

Mexico's labour force becomes a strategic asset for the US auto industry, writes Damian Fraser

A motorway over the Rio Grande

MEXICO'S car market has emerged from the tortuous North American free trade negotiations well placed to strengthen its position as a low-cost manufacturing base for the big three US car companies.

Under the terms of the agreement, the US has agreed to remove all tariffs on Mexican cars and car parts within 10 years, and let Mexico be considered North America for purposes of meeting US Corporate Average Fuel Economy (Cafe) standards. In turn, Mexico will abolish restrictions on foreign investment in car part makers, and gradually relax all restrictions on imports.

While this latter Mexican concession has raised fears of a flood of American imports, the booming domestic market should provide room for all five domestic producers. From January to July this year domestic car sales reached 417,887 units, up 11.2 per cent on the same period in 1991. Sales this year will be around 730,000 units, nearly 100,000 more than last year, and three times sales in 1987.

While this year's 10 per cent growth is half last year's, this is largely a result of a slowing economy. When the economy picks up in the second half of next year, growth should return to previous levels. The privatisation of Mexico's banks has greatly expanded access to credit, making it easier for middle-class Mexicans to finance their car purchases. Domestic sales should reach 1m by 1995 on current projections.

Exports have shrugged off the weakening US market, and in the first seven months were 235,000 units, 27 per cent up on the same period last year. Exports on current trends should be about 400,000 cars this year, nearly seven times more than in 1986.

The big three US car companies account for the lion's share of exports, with Chrysler exporting Ram Chargers, Ford Tracers and Escorts, and Gen-

eral Motors Cavaliers and Cutlasses. These car companies have invested heavily in export plants in Mexico recently, because of Mexico's low costs, relatively high productivity of employees, and proximity to the US market.

The average Mexican car worker makes \$4-\$5 a day, a fifth of his US counterpart

fifth of his US counterpart. But productivity at Mexico's custom-built export plants in Northern and central Mexico is as high or higher than in many US plants, thanks in part to malleable labour unions. Ford's Hermosillo plant has been widely regarded as one of the most efficient in the world, and was hailed as such by MFI

researchers in the book *The Machine that Changed the World*.

Under the proposed free trade agreement the US car companies will almost certainly integrate still further their Mexican and US, Canadian operations, concentrating production of a few vehicles in Mexico, and importing remaining domestic Mexican needs from up north. With production of 700,000 split among 10 car models, Mexico's plants still operate on a much smaller scale than those in the US.

The United Auto Workers union has opposed NAFTA precisely because it fears that such restructuring would lead to a loss in their jobs. In February GM gave a hint of what might happen, by shifting production of some engines from Moraine, Ohio, to Toluca, Mexico.

Mr Victor Barreira, head of Ford Mexico, says "we would

like to have high volume plants in Mexico, keeping some production at home, and exporting some... We will pick the place [between the US, Mexico and Canada] where it makes sense to produce a vehicle." He hints that Ford is looking at producing small vehicles in Mexico. Detroit may thus shift production of some small cars from Asia to Mexico.

The proposed NAFTA makes such a strategy more attractive, by putting minimum North American content at 62.5 per cent (compared with just 50 per cent in the US-Canadian FTA) for cars to be eligible for tariff-free imports into the US. It is much easier for the US Mexican-based plants rather than Asian-based plants to meet this condition, since practically all the parts of the US Mexican cars are from the US, or Mexico.

Mexico's two other car pro-

ducers - Nissan and Volkswagen - are at some disadvantage, since they import many of their parts from their home country. Nissan has thus strongly attacked the high local content provision under NAFTA. It would have to pay Mexican tariffs on cars produced for the Mexican market.

The US auto workers union has opposed NAFTA precisely because it fears a loss of jobs

if they do not meet the content rules.

Volkswagen decided long before NAFTA was proposed to bring parts producers to Mexico, to help it compete in the North and South American markets. Mr Dietrich Aufenacker, sales and marketing vice-president, says "if you want to sell a product in North

America you have to source in North America. Our strategy is thus sourcing in dollars in dollar-dependent countries. That is the only way to reduce dependence on the EC." VW is thus bringing a minimum of 25 German suppliers to Mexico.

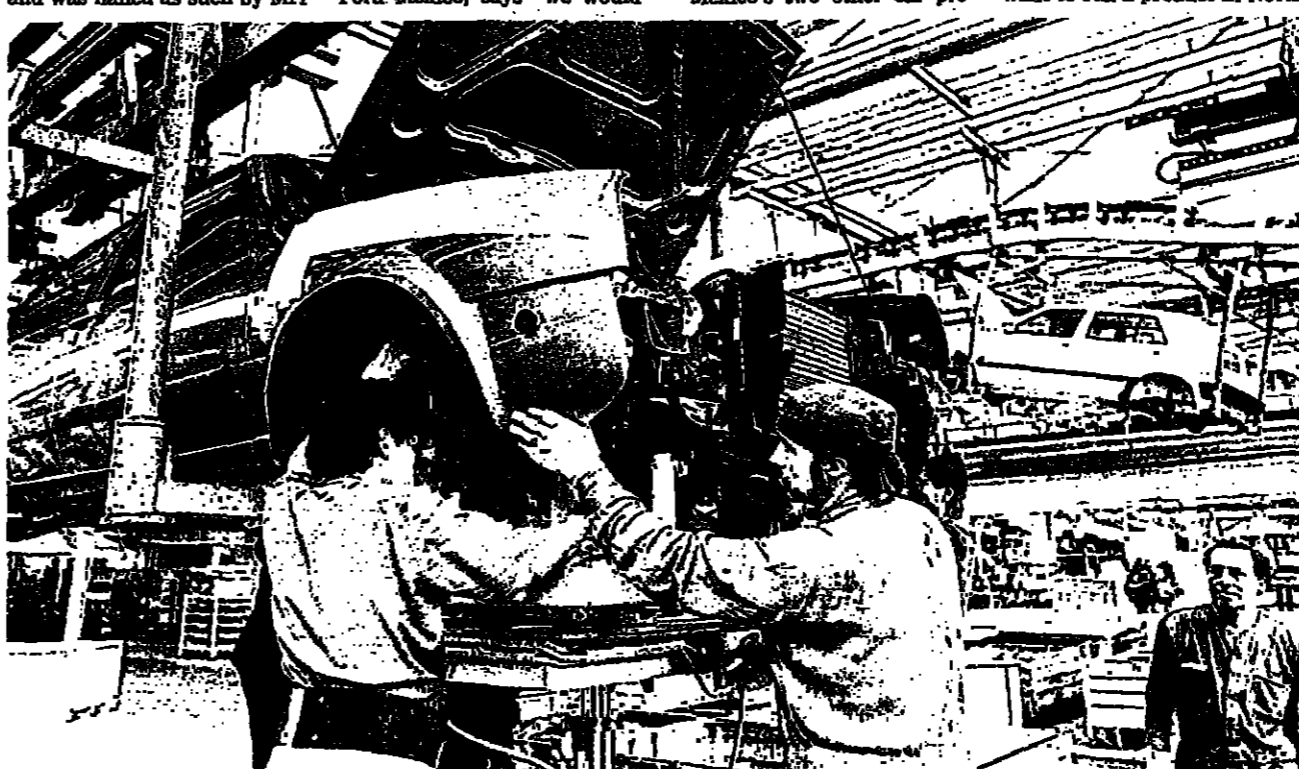
The company last year exported from Mexico 60,000 cars to the US, and this year hopes to increase this to 100,000.

At same time it is boosting exports from Mexico to Central and South America, from around 5,000 last year, to a hoped for 10,000 next year. Mr Aufenacker hints that like Ford the company may bring to Mexico another line of cars, to compete with its North American rivals.

Even with the booming domestic market, Nissan and Volkswagen are likely to face more intense pressure from the US car companies as Mexico releases its import restrictions. Under the proposed NAFTA, Mexico will let car producers import \$1 value of cars for every 80 cents of exports, a ratio gradually falling to 55 cents over 10 years, and then disappearing. Currently Mexican car makers can only import \$1 value of cars for every \$2 of exports.

Ford, Chrysler and GM do not produce any compact cars in Mexico at present, but under NAFTA will import them from the US, thus entering a segment of the Mexican market that VW and Nissan have traditionally dominated. Chrysler in particular reckons that imports of such cars from the US will increase its market share in Mexico.

The threat of more competition has forced VW to introduce Japanese style work groups and "just-in-time" inventory management in an effort to raise productivity. Worker resistance to this led to a month-long strike in July and August. For while productivity at Mexico's export plants is high, it is still pitifully low at the older plants in and around Mexico City that source the domestic market.



The Volkswagen factory at Puebla, Mexico: Importing parts from abroad creates a certain disadvantage

Martin Dickson

WORLD CAR INDUSTRY 10

Steven Butler on the year when Japan's domestic cars market forgot to grow

Sudden death of a golden age

IF THERE was one thing Japan's automobile companies could always count on, it was being able to sell cars to the Japanese public in steadily rising numbers. This happy situation at home provided an enormous source of strength for the industry - yielding ever increasing cash flow and profits that supported the industry's enormous international expansion of the past decade.

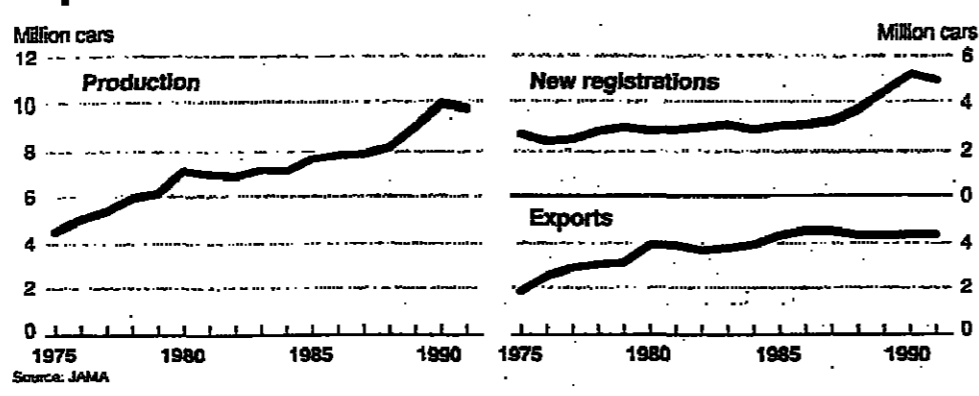
This golden era has come to an abrupt end. Indeed, the prolonged weakness in domestic demand, coming at the tail end of an investment boom, has left the industry with vast overcapacity - with the ability to make nearly 13m passenger cars a year stacked against current production of just over 9m.

The question facing the industry is no longer when growth will resume; it is when and how severely the domestic industry may have to shrink. This is a question that no Japanese car company is yet willing to face squarely. Cutting capacity runs against the basic ethic of Japanese-style management. Yet the pressure on the industry has become enormous.

In the 10 years to 1990 domestic vehicle sales in all categories measured by registration grew in every year by an average of 4.5 per cent. In the three years to 1990, with domestic demand stoked by historically low interest rates, passenger car sales soared ahead by 16 per cent a year. From 1987 to 1990, domestic car sales grew by 56 per cent to 5.1m units, including both minicars and the rapidly-growing luxury sector.

These were heady days. The low interest rates, combined with a booming stock market, reduced the cost of raising capital for the car companies to one per cent and less. As a result the companies had money and they spent it to expand capacity aimed at meet-

Japan: cars



Nissan workers at Yokohama: waiting for the squeeze

ing demand that appeared to grow insatiably, with the public buying ever larger and more exotic cars.

Yet suddenly, just as Toyota, Nissan, and Mazda are opening new assembly plants at home, demand has collapsed. 1990 itself was a bad year. Car sales dropped by 4.6 per cent to 4.87m vehicles. This year sales have fallen steadily, and are likely to finish the year roughly 5 per cent down from 1991. While this is bad enough in itself, the prospects for a recovery in sales look extremely dim.

Mr Richard Ko, automobile analyst in Tokyo at Barclays de Zoete Wedd Securities, taking into account factors such as household income, passenger car vehicle stock, and household assets, has projected that 1993 will see no growth in vehicle sales. In 1994 he estimates sales will grow by only 1.7 per cent, and by just 3 per cent in 1995. This will be insufficient to return sales to the record level set in 1990.

Japan's per capita car ownership is the lowest among industrial countries, with 288 cars per thousand population in 1990 compared to 400 in the UK and 667 in the USA. Yet with

the outlook for this year has grown steadily worse. Nissan said in late August that it would post a parent-company after-tax loss of ¥20bn, and would suspend its interim dividend payment. Mazda said its net profits would plunge by 62 per cent, and the company has decided to cut dividend payments by 20 per cent this year. In spite of the forecast, many analysts believe Mazda will stay in the black only with difficulty.

The response to this severe decline, so far, has been relatively muted, as the car companies have selected items from the thumb-worm menu of Jap-

nese management practices. Nissan, perhaps most severely affected, has decided to reduce hiring so as to shrink the company's workforce by 4,000, or 6 per cent, in the next three years by attrition.

Part-time employment throughout the industry has been chopped back, although this is impossible to measure with any precision. Overtime has also been cut, along with executive salaries. Most companies are operating plants on single shifts, but this decline in output has not been fast enough to move bulging inventories of unsold cars off the lots.

There has been much talk in the industry of saving costs by means of more clever and economical engineering. All companies are making efforts to reduce the variety of parts that go into a single car, thereby restricting consumer choice. Efforts are also being made to use more common parts in different vehicle models. Toyota, however, has questioned whether this effort can result in significant savings. A senior executive at Mitsubishi Motors says the cost to consumers could actually rise, if this strategy is adopted, since parts specifications would have to be standardised to meet the highest tolerance in a class of vehicles.

Every company but Toyota talks about wanting to lengthen model cycles and charge higher prices for cars. But if Toyota does not lead the way, which now looks unlikely, no other car company could withstand the pressure of trying to go it alone.

The years ahead, therefore, look very much like a survival of the fittest. Unless the market returns to health more quickly than envisioned, financially weaker players, such as Nissan or Mazda, may have to take more drastic measures to stay in the running.

Mr Yoshifumi Tsuji, Nissan's president, was billed as a straight-talking factory hand when he was appointed president of Nissan Motor, Japan's second biggest vehicle maker, in June. He has since lost no time burnishing the image, writes STEVEN BUTLER.

Just two months after he took the wheel, Nissan announced in late August that it would slip into the red in the year to March, posting a ¥20bn loss. The open admission of a financial loss is never easy for a Japanese company, and often is something that can be disguised by accounting gimmicks.

Mr Tsuji's decision to admit Nissan's difficulties openly has let in a gust of fresh air, and left him in a stronger position to try to turn the company around. Yet this will not be an easy task, as Nissan's difficulties appear to be deepening almost by the month. September's car sales in Japan were bad for the industry, falling by 4.4 per cent year-on-year. Yet Nissan's sales were abysmal, falling by 19.3 per cent. While one month's statistics do not establish a trend, nine months do. Nissan sales were off by 9.6 per cent to 1.03m units in the year to September, compared with an industry-wide decline of 5.7 per cent. This has put down Nissan's share of the market by one percentage point to 22.8 per cent. If Nissan continues to lose market share at home, the forecast of a ¥20bn loss for the year could prove optimistic.

The reasons for Nissan's loss of market share are fairly straightforward. The company

has not caught up with the trend toward recreational vehicles that helped Mitsubishi Motors boost sales by nearly 9 per cent in August. Unlike Toyota, Nissan has recently had a dearth of new model cars to inspire its customers.

Even so, Nissan's poor sales performance seems surprising given the huge and in the main successful efforts by the company to remake the company's image and win new customers. Under the leadership of Mr Yutaka Kume, then president now chairman, Nissan established a design trend in 1987 with its smash hit Cima luxury sedan. This was the first move by Japanese car designers toward rounded lines, nostalgic body shapes drawn from earlier decades, and experiments with radically new concepts.

Yet where Nissan led, its smaller and nimble competitors, Mazda, Mitsubishi, and Honda, followed with great success. Nissan is stuck in the middle. It sells a full range of cars to meet almost every need, but at half the size of Toyota it cannot match Toyota's economies of scale. It has also never had Toyota's knack for super-efficient factory management. When in earlier decades Nissan tried to match Toyota's strategy of selling relatively safe, dull designs to mainstream customers, it saw its market share decline steadily from about 30 per cent to 23 per cent.

At the same time, Nissan is enough in the dull mainstream of the market to risk losing customers should its designs appear too radical. And the customers attracted by Nissan's more radical designs are easily won over by the bolder attempts of other makers.

As a result Mr Kume's strategy of stressing design and going for market share appears to have fallen flat. Worse, Mr Kume left Nissan with a heavy burden of net debt, amounting to ¥3,668bn at the end of March, or 147 per cent of equity.

Mr Tsuji's strategy to cope with this has been to go back to basics and to try to improve productivity by 10 per cent a year on the factory floor. The problem, as he sees it, is that Nissan cars are just too complex, and they need to be engineered for simplicity.

Nissan has also decided to cut directors' salaries and to reduce hiring so that the size of the staff will fall gradually by 4,000, or 6 per cent in the next three years.

Beyond this, the strategy is just to hang on. Nissan's profits should begin to recover in a year or two as the heavy burden of depreciation costs, resulting from the company's ambitious investment programme, begins to ease. Nissan considered cutting capacity but decided this would prevent it from enjoying a surge in profits when the market eventually recovers. Even now, Nissan is just 60,000 vehicles sales away from the break-even point.

There is, therefore, a light at the end of the tunnel for Nissan. The difficulty is that the light is moveable, depending on how long it takes for the market to recover. The danger for Nissan is that a slow recovery could force it to take more drastic measures.

JAPAN CAR SECTORS' PERCENTAGE SHARE OF NEW SALES

	6-months 1992	6-months 1991	6-months 1990
STANDARD (2001cc and over)	16.1	11.1	7.7
SMALL (961 - 2000cc)	65.9	70.9	77.7
MICRO (560cc and under)	18.1	18.0	14.6

Source: JAMA



Shoichiro Toyoda, chairman of Toyota: smooth succession

THE changing of the guard at Toyota Motor took place like clockwork.

After precisely 10 years as president at Japan's most profitable company, Mr Shoichiro Toyoda last month took over the chairmanship from Eiji Toyoda, his cousin once removed, and passed on the presidency to his younger brother Tatsuhiro.

Toyota - Japan's biggest car maker with 40 per cent of the domestic market - has managed to keep it all in the family for yet another generation of leadership.

The regularity and predictability of the event gave not a hint that the Japanese automobile industry is facing one of its most difficult periods since the war, with domestic sales falling and profits collapsing.

Mr Richard Ko, automobile analyst in Tokyo at Barclays de Zoete Wedd Securities, taking into account factors such as household income, passenger car vehicle stock, and household assets, has projected that 1993 will see no growth in vehicle sales. In 1994 he estimates sales will grow by only 1.7 per cent, and by just 3 per cent in 1995. This will be insufficient to return sales to the record level set in 1990.

Japan's per capita car ownership is the lowest among industrial countries, with 288 cars per thousand population in 1990 compared to 400 in the UK and 667 in the USA. Yet with

the outlook for this year has grown steadily worse. Nissan said in late August that it would post a parent-company after-tax loss of ¥20bn, and would suspend its interim dividend payment. Mazda said its net profits would plunge by 62 per cent, and the company has decided to cut dividend payments by 20 per cent this year. In spite of the forecast, many analysts believe Mazda will stay in the black only with difficulty.

The response to this severe decline, so far, has been relatively muted, as the car companies have selected items from the thumb-worm menu of Jap-

The Toyota dynasty retreats gracefully, says Steven Butler

Adaptability in slow motion

Much like Toyota's Lexus luxury cars that have proved so popular in Europe and North America, Toyota itself gives all the appearance of cruising along in splendid comfort, unruffled by the crumbling of the road surface.

The appearance, however, could be deceiving. Certainly, of all Japan's automobile companies, Toyota, with 40 per cent of the market, will emerge the least scathed by the recession in the industry. Yet even for Toyota change is in the wind.

To start with, the appointment of Mr Tatsuhiro Toyoda as president is likely to mark the end of the Toyota dynasty at the company, which now owns an insignificant percentage of the company's shares. To promote a young member of the Toyota family over the head of more senior directors would probably provoke a revolt in the company.

The structure of the board of directors at Toyota was also changed with the appointment of the new president. Mr Tatsuhiro Toyoda previously served

as Toyota's sole executive vice president. This time Mr Toyota will be joined by five executive vice presidents, throwing wide open the choice of the next president.

As Mr Shoichiro Toyoda said on the announcement of his brother's appointment: "There is a strong possibility that (the next president) would be someone without Toyota as a surname."

Mr Shoichiro Toyoda was a strong leader at the company, and helped see Toyota successfully through a decade of rapid

international expansion. His brother was intimately involved in that expansion. Tatsuhiro was until 1988 president of Toyota's joint production operation with General Motors in the US, New United Motor Manufacturing. He also ran Toyota's US sales efforts, and speaks fluent English.

Tatsuhiro's appointment gives a more international flavour to a company that is often seen (probably without justification) as inward looking and archetypically Japanese. But he is not expected to exert the same

degree of strong leadership shown by his brother.

He will also be facing a business environment that has become extremely difficult. Toyota's consolidated pre-tax profits fell by 40 per cent to ¥427.8bn in the year to June on sales that rose by 3.1 per cent to ¥10,163bn.

Toyota has gained market share slightly in the nine months to August, as its loyal customers continued to snap up its latest model cars. But sales have still declined by 4.1 per cent in the domestic market to 1.77m vehicles during the period.

Yet Toyota has one of the strongest balance sheets in Japan, with cash and short term investment amounting to ¥1,944bn, and net debt worth only 14 per cent of shareholder's equity.

This means that Toyota is capable of withstanding almost anything the Japanese, or international, market throws at it in the next few years.

The pressure on Toyota from the rest of the industry to soften its aggressive competitive stance has become extremely intense, and Toyota plans a number of changes to cope with the difficult business

environment.

The company is likely to knock a few poorly-selling models out of its extensive line up in an effort to save costs. Like other makers, it is trying to save costs by cutting back on the variety of engine types, steering wheels, decorative trim, or colour combinations that it now offers customers. Tatsuhiro Toyoda supported the idea of saving money by using more common parts in different vehicle designs, although some Toyota engineers are sceptical about whether this will work.

But in two critical areas, Toyota has given no hint of change. The company has dismissed suggestions that the current four year cycle of model changes should be lengthened to save money. And the new president said Toyota had no intention of increasing prices to boost margins.

Toyota would no doubt like to save money, but the company retains a strong ethic oriented toward providing its customers with the latest technology and design at the cheapest price. As the biggest and probably most efficient producer, it can pursue this strategy for a long time.

California is the Mecca of car design, writes John McCormick

Land of the dream machine

Equally significant is the fact that Californians are far less loyal to American cars than people in other states: imported models account for half the cars sold in California, compared with a national figure of 30 per cent.

With such diversity of cars on its roads, designers naturally gravitate to California. Jerry Hirschberg, head of Nissan's design studio in San Diego, observes: "For me it's like living in an international design show. Unlike Detroit, Japan or anywhere else, in California you see everything and

you see it right away, it's inspirational, very challenging."

Tom Tremont, chief designer at Chrysler's Pacifica studio, one of the first to be set up on the west coast, concurs: "Southern California has always been known as a trend setting area, whether for fashion, for politics or cars. It's a unique place, so everybody is focusing here - there's really no other place in the world where you can find so many design studios."

Verena Kloos, director of Volkswagen Design at the company's two-year-old studio in

California's Simi Valley, describes the scene on a typical Los Angeles freeway as "a rolling car show".

Like the longer established Japanese studios, VW's west coast design centre exists to report back to the home office on the latest trends and fashions in California, and to develop concepts for future cars for Audi as well as Volkswagen.

Although the centre is relatively new, it has already contributed towards a proposed off-road version of the Golf, inspired in part by the soaring

popularity in America of "sport utility vehicles". "It's intended to be a fun vehicle for active life-style buyers that can be driven off-road occasionally," says VW.

To date, most sport utility vehicles have tended to be large and luxurious, like the Range Rover. But the influence of the sun-loving Californians has led some designers to look at smaller, less expensive machines. As a result, a series of sophisticated dune buggy-like concept vehicles have been making the rounds of US motor shows.

The impact of VW's west coast studio has also been felt in the choice of colours and wheel designs for the current generation Golf, which makes its debut in America next year.

For the Japanese, the influence of the California studios runs much deeper and is felt around the world. Toyota was the first Japanese car maker to build a design facility, called CALTY, in California. It also has a factory located in the state, operated jointly with General Motors.

Established in 1973 in trendy Newport Beach, CALTY has designed several cars, including the Celica and Previa minivan, which are sold by Toyota in most of its overseas markets.

A more recent CALTY design, the sleek Lexus SC400 luxury coupe, is currently marketed only in America and Japan. The story behind the widely admired shape of the SC400 would be hard to believe had it not come from California.

Rather than start with conventional two-dimensional drawings, SC400 chief designer Erwin Lui filled balloons with wet plaster, which he moulded into organic shapes as it set. The plaster forms were then photographed and projected on to a screen which was slanted

to elongate the shapes. The most inspirational shape, says Lui, had the look of a bow tie, and that became the basis for the look of the SC400. "We never touched pencil to paper until the design process was virtually completed," Lui says.

Honda employs more than 100 design and research staff at its LA Centre in Torrance, California. "We have to design cars in the US in order to market successfully in the US," says Honda. "Sometimes it's difficult for the guys in Japan to design cars for American tastes."

The newly introduced Civic coupe was penned by Honda's west coast designers, as were the Accord estate, Accord Coupe and first generation Civic CRX before it. Tom Elliott, a senior American Honda executive, says that the next generation Accord saloon, a crucial car for the company, will "reflect the influence of our US design studio".

In Nissan's case, the company's San Diego studio has a strong influence on the design of 300ZX sports coupe, which is sold worldwide. It has been solely responsible for several other models, including the Infiniti J30 and Altima saloons, intended mainly for the US market.

As well as designing new cars, Nissan's Hirschberg makes sure his staff spend time travelling and observing the world around them. One life-style project involved taking photos of hundreds of "real people" driving their cars. "We've developed all sorts of interesting ideas in trying to conceive of vans or sports cars or some new category we haven't thought of before."

Hirschberg quotes one example of a picture of a girl with frizzy hair and a dirty, dented car. "We felt we'd discovered a whole new category here called 'unkempt' - all those kids who are very carefully avoiding being well kept. It's a potential category for a car that you may buy - like used jeans."

John McCormick is US editor of Autocar and Motor

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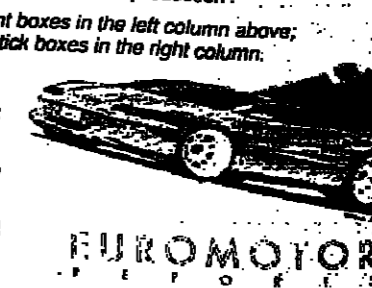
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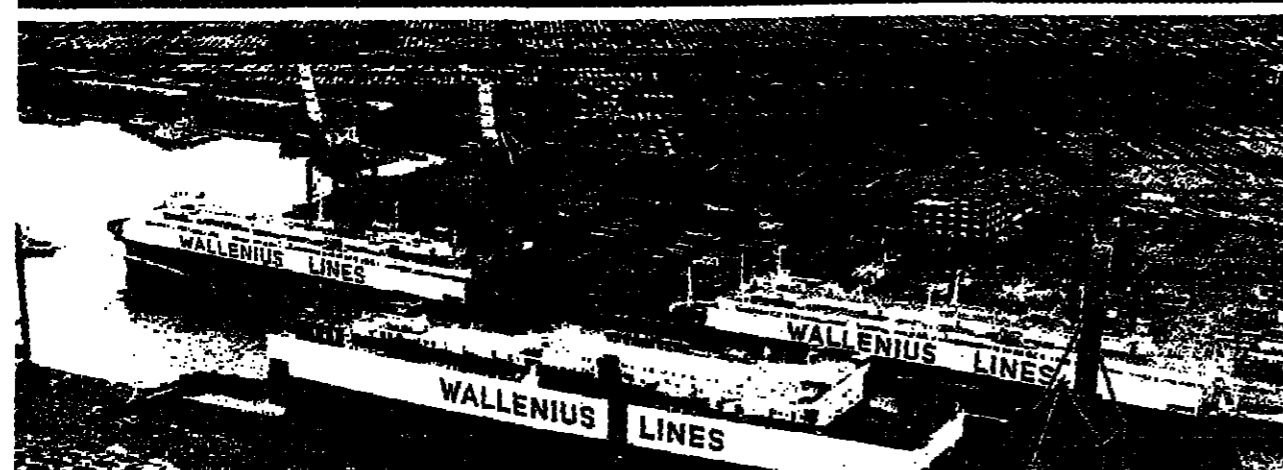
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WORLD CAR INDUSTRY 12

Stuart Marshall explores the environmental and other features of Europe's latest models

Safety for the driver and his planet

THE new models that will be entering European showrooms over the next 12 months will reflect the industry's success in meeting environmental needs as well as consumer demands.

From next January, every new petrol-engined car must have a catalytic converter to clean up the exhaust. Some sections of the industry perceived the EC requirement as a politically inspired expedient. But they faced up to the challenge, equipping even the smallest and cheapest of their cars with the electronic fuel injection needed for a catalyser to work properly.

Multi-valve engines have for some years been widely used by all Japanese makers on high volume production, as opposed to specialised high performance cars. This was not the case in Europe, though Saab and Rover were among the few honourable exceptions as multi-valve pioneers.

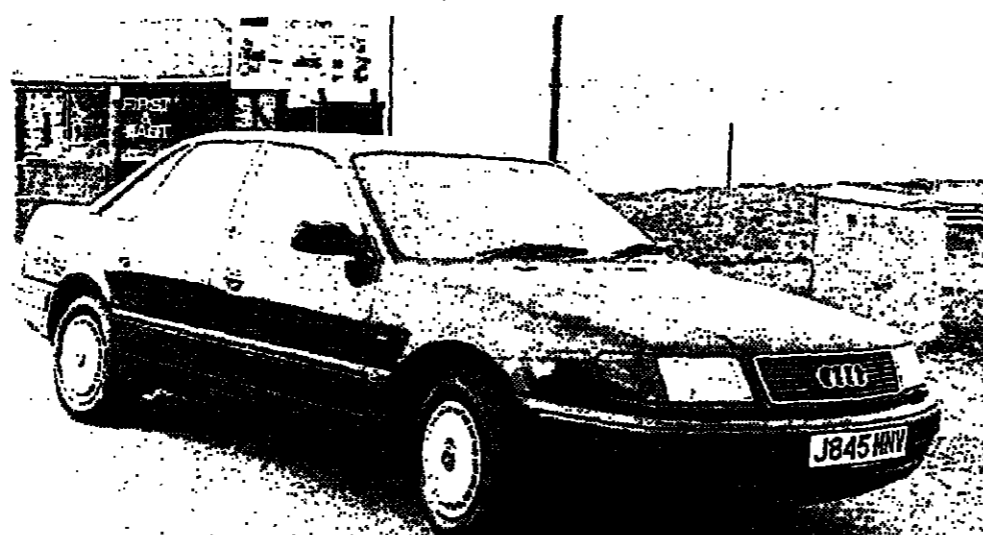
Now, however, they are being adopted by European manufacturers across the whole price spectrum as a means of improving power outputs without increasing cylinder capacity.

Among the latest multi-valve models are a wide range of Ford Escorts and the Mercedes-Benz 200-300 cars, due to be joined early next year by the replacement for the best-selling 190.

V6 engines are enjoying a vogue because of the space they save compared with in-line designs, which do not fit transversely into front-wheel driven cars. An alternative solution, seen in the latest Volvo 850GLT, is to mount a 5-cylinder in-line engine east-west combined with an ultra-compact manual or automatic transmission.

The most space-saving conventional piston engine of all is the narrow angle V6, first used more than 60 years ago by Lancia. Audi and Volkswagen are employing two different narrow angle V6s occupying hardly any more space than in-line 4-cylinder engines of far less cylinder capacity in a number of models, including the VW Golf and Vento, the Audi 80 and 100.

This illustrates another growing trend - the fitting of comparatively large displacement and high power output engines into cars of modest size. These provide the performance, and offer all the luxury equipment, expected of products in the next size class. Big



□ Audi 100 TDI - six-gear, direct injection diesel car "as economic as a petrol-driven supermini"



□ Saab's 9000CE 2.3 turbo - a 32-bit microprocessor aids one of the world's cleanest cars

is no longer beautiful among many motorists who spend much of their time driving on their own in crowded traffic conditions.

Availability from early next year of the mid-sized General Motors Vauxhall Cavalier (Opel Vectra in most European markets) with a new British-built, narrow angle 2.5 litre V6 engine is a straw in the wind. So, too, is BMW's decision to offer its new V8 engines, originally introduced in the big 7-Series and intended to power its forthcoming replacement, in the 5-Series as well.

Saab, also GM controlled, is expected soon to be using the

British-made 2.5 V6 but has its own ideas for improving performance and minimising emissions. The GM link has given Saab access to 32-bit microprocessor technology. It is combined with a direct ignition system having a mini-coil per cylinder and no high-tension leads or distributor. This 32-bit component (most other makers use 8-bit or 16-bit microprocessors) provides exceptionally precise monitoring and control of transient state conditions within the engine.

So exactly does the Saab Trionic system, with its 2m calculations each second, control

combustion that it is claimed to make the 2.3 litre, turbo-charged 4-cylinder engine of 1993 Saab 9000CS and CD models one of the world's cleanest. In the foreseeable future, the Trionic system will allow a petrol engine to be run on less polluting alternative fuels such as ethanol or methanol without any adjustment.

Two-stroke engines, far smaller and lighter than four-strokes of the same power output, are being developed by many car makers on both sides of the Atlantic and in Japan.

Ford is monitoring the performance of a fleet of two-stroke powered Fiestas in ser-



□ New 16-valve engines raise the performance and refinement of Ford Escorts and Orion



□ Rover's 220 coupé turbo, unveiled this month, is the UK company's fastest production car

vice with a British police force. Toyota has demonstrated an ultra-light and fuel efficient two-stroke powered concept town car. Chrysler also has some promising two-stroke engines at an advanced development stage in the US.

The Japanese motor industry has an unnerving habit of rapidly turning concept cars into production models. For example, both Mitsubishi 3000GT and Subaru SVX were on sale within two years of being unveiled to the public at Tokyo motor show. Even so, the Japanese do not expect two-stroke engines to be in the showrooms in 1993 but a mid-decade

timescale looks more promising.

But for the time being, there is agreement among major European manufacturers that the diesel engine, preferably with turbocharging, intercooling and direct injection, provides the best fuel economy.

Although there is a public perception that diesels are dirty - and ill-maintained heavy lorries and buses undoubtedly are - a diesel car is at least as environmentally acceptable as one with a petrol engine and three-way catalytic converter.

There is a clear relationship between atmospheric pollution

and fuel consumption. The diesel engine, especially when operating at less than full power and at constantly changing revolutions - as it does in traffic - has a much lower specific fuel consumption than a petrol engine. Hence its carbon dioxide emissions are proportionately lower and its efficient combustion process also creates less carbon monoxide. Now that inherent noise problems have been overcome by two-stage injectors and other means, the direct-injection car diesel is pointing to fuel economy beyond the capability of petrol engines.

Without any special prepara-

tion, a new Audi 100 TDI saloon with 6-speed gearbox recently gained an entry in the Guinness Book of Records by being driven further on a single tankful than any other car. In showroom trim, it went from John O'Groats to Lands End and then back again north of the Scottish border on 17.82 gallons (80.17 litres) of fuel, giving a consumption of 75.94 mpg (3.72 l/100 km).

The industry is now concentrating on further reducing the diesel car engine's particulate emissions (visible exhaust smoke), the only area in which it is significantly worse than a petrol engine.

The main line of attack is to refine the fuel injection and combustion process and clean the exhaust gases by a simple oxidation catalyser.

Automatic transmissions are gaining ground as urban driving in particular becomes more stressful. There can be no argument that a car with two pedals makes fewer demands on the driver in heavy traffic than one with three. Safety can only benefit. Just as 4-speed automatics have virtually taken over from the old 3-speed types, those with 5-speeds are making steady headway in cars of medium price and above.

This kind of technological advance always spreads downward. When ABS brakes were first introduced, they were costly extra equipment on the most expensive cars. Now buyers expect them to be standard on modestly priced cars, particularly those of higher than average performance potential.

In the same way, traction control systems have become increasingly popular on executive-class cars. They make use of the ABS brake system's electronic sensors to eliminate the risk of wheelspin and consequent loss of control when accelerating by matching engine output to tyre grip.

Full-time four wheel drive performs a similar function but traction control has been found to provide most of the benefits without the weight and cost penalties.

On the safety front, enhanced protection for the occupants in side impacts is now a feature of many high volume production cars. Similarly, airbags which inflate in severe frontal impacts and reduce risk of facial injury to drivers and front seat passengers are spreading down market. They cost extra - usually over £500 - but as demand grows, prices must fall.

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